

Hodgson, a state senator from North Kingstown, also cited an account that former Providence Business News reporter Richard Asinof has given, in his online blog, of a 2010 encounter in which Kempe allegedly "denied to [PBN] there would even be a bond issued in this deal.

"In her current position, Ms. Kempe has done all the talking for Peter Kilmartin on the matter of getting answers and justice for 38 Studios. Yet, as spokesperson for Governor Carcieri she actively worked to keep the 38 Studios insider deal secret from the public and press," Hodgson said.

"These two circumstances cannot be reconciled with any credibility. ... The Attorney General and any of his staff who are connected to the 38 Studios deal owe it to the People of Rhode Island to recognize this conflict and stand aside," Hodgson said.

This was the response from Kilmartin's assistant public-information officer, Emily Martineau: "Dawson Hodgson has used this news to make another politically based demand that this office step aside from the criminal investigation concerning this loan.

"His statement is clearly intended to undermine the public's confidence in the work of this office and the Rhode Island State Police," she said, despite State Police Supt. Steven G. O'Donnell's statement last week that he is satisfied that Kilmartin "has no conflict in this case," and has "full confidence in the professionalism of the career prosecutors he has assigned to this investigation."

As for the prospect that Kilmartin could be a witness in the case, she again cited the statement that O'Donnell posted on the State Police website relative to the request for lawmakers' phone numbers. It said: "It is important to recognize that the goal of this request is to ensure that anyone with information, who has not been previously contacted, has the opportunity to present it. No member of the legislature is suspected of wrongdoing simply because of their vote."

Martineau said: "As Public Information Officer for this office, Amy Kempe is not briefed on, nor does she have access to, information related to any ongoing criminal investigation. Until those matters become "public" there is simply no need for the "public information officer" to be aware of them.

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Speaker: Police to talk to lawmakers on 38 Studios

Posted: Jun 18, 2014 12:56 PM EDT

Updated: Jun 18, 2014 5:20 PM EDT

By ERIKA NIEDOWSKI
Associated Press

PROVIDENCE, R.I. (AP) - Speaker Nicholas Mattiello says he's "thrilled" Rhode Island State Police are investigating the 38 Studios loan deal and will answer whatever he is asked.

Mattiello informed House lawmakers Wednesday that police want to interview everyone who voted on the job-creation program under which ex-Red Sox pitcher Curt Schilling's company got a \$75 million state-guaranteed loan.

His office turned over members' cellphone numbers except for one who didn't want it given out.

State police head Col. Steven O'Donnell said the investigation is active and ongoing and no lawmaker is "suspected of wrongdoing simply because of their vote."

The General Assembly hurriedly approved the loan guarantee program in 2010.

Mattiello says he knew nothing at the time about funding being contemplated for 38 Studios.

Authorities also plan to reach out to senators.

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RI State Police to interview lawmakers about 38 Studios

By Ted Nesi and Tim White

Published: June 18, 2014, 12:29 pm | Updated: June 18, 2014, 10:03 pm

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PROVIDENCE, R.I. (WPRI) – Rhode Island State Police investigators are seeking interviews with state lawmakers who voted on the 2010 bill that created the 38 Studios loan program, officials said Wednesday.

In a statement, R.I. State Police Col. Steven O'Donnell said he made the request on Tuesday in an effort "to ensure that any legislator, who has relevant information regarding the 2010 vote on the 'Job Creation Guarantee [sic] Program,' provides that information to investigators."

O'Donnell described the investigation into 38 Studios by the state police and Attorney General Peter Kilmartin's office as "active and ongoing." He said investigators want "to ensure that anyone with information, who has not been previously contacted, has the opportunity to present it." He added: "No member of the legislature is suspected of wrongdoing simply because of their vote."

O'Donnell also directly addressed questions being raised about whether it's appropriate for Kilmartin, who was a sitting lawmaker in 2010 and voted in favor of the loan program, to be involved in a probe of the same legislation.

"I am aware that the attorney general, as a former representative, voted on this legislation," O'Donnell said. "I remain satisfied that he has no conflict in this case, based upon his role as a legislator, and I have full confidence in the professionalism of the career prosecutors he has assigned to this investigation."

Kilmartin spokeswoman Amy Kempe said investigators have not requested an interview with the attorney general about his vote, but she reiterated that he was unaware at the time \$75 million from the new loan program would go to 38 Studios.

"It is our understanding that state police is simply asking legislators if they have anything new to offer and, if so, they want to talk to them," Kempe told WPRI.com.

A law enforcement source with direct knowledge of the investigation told WPRI.com the request for interviews with lawmakers is not related to the state and federal probe swirling around former House Speaker Gordon Fox that led to raids on his home and office in March, but rather a separate and ongoing state-level probe into 38 Studios.

"This shows the investigation is active and ongoing," Kempe said. "It shows neither the state nor the attorney general's office will leave any stone unturned." Kilmartin would not be involved in the probe "if there was ever any inkling or hint of any conflict," she added.

The request to lawmakers from O'Donnell was first revealed earlier Wednesday by House Speaker Nicholas Mattiello.

"I have been contacted by the Rhode Island State Police and have been informed that they would like to ask questions of every member, past and present, who participated in the voting of the Job Creation Guarantee [sic] Program (2010-H 8158) on May 25, 2010," Mattiello, D-Cranston, told his fellow representatives in an email sent just after noon.

Mattiello spokesman Larry Berman confirmed the authenticity of the email, which was provided to WPRI.com by two lawmakers. "I am fully cooperating with the state police and I am happy to assist them, and I thank them for the thoroughness of their investigation," Mattiello said in a statement.

Mattiello said O'Donnell requested lawmakers' cell phone numbers, which he said he would provide by 4 p.m. Wednesday unless someone objects, to interview them. Berman said 37 of the 66 lawmakers who voted for the loan program are still serving in the House.

O'Donnell called Mattiello directly on his cell phone Tuesday to "inform me his investigation was ongoing" and that he would be following up with all representatives who voted on the bill, the speaker told WPRI.com. O'Donnell followed up Wednesday with the specific request for cell phone numbers, he said.

Greg Pare, a spokesman for Senate President M. Teresa Paiva Weed, confirmed O'Donnell also called her to say he would be reaching out to senators for information about 38 Studios. "The Senate president thanked the state police for the work they are doing," Pare said. "The Senate will assist in any way they can."

The new wrinkle in the 38 Studios investigation comes as Rhode Island lawmakers race to finish their annual half-year session this week. All 113 House and Senate lawmakers must face the voters in November if they seek re-election.

Rep. J. Patrick O'Neill, a Pawtucket Democrat who was House majority whip when the 38 Studios loan program passed, said he was fine with Mattiello giving investigators his cell phone number. "If they want to speak to me I'm glad to speak to them about what I knew or, more importantly, what I didn't know in 2010," he told WPRI.com.

The bill referenced by Mattiello, H 8158 (<http://webserver.rilin.state.ri.us/BillText10/HouseText10/H8158.pdf>), was sponsored by then-House Finance Committee Chairman Steven Costantino, D-Providence; Rep. Helio Melo, D-East Providence, who succeeded Costantino as chairman the next year; and former Rep. Jon Brien, D-Woonsocket. The legislation created a new \$125-million loan-guarantee program at the R.I. Economic Development Corporation (EDC).

The bill was lawmakers' second attempt to create the new loan program in the spring of 2010. The same proposal had been included in a supplemental budget passed by the House in April, but that measure died in the Senate, forcing Costantino and his colleagues to introduce the standalone bill on May 19.

The loan-guarantee bill passed the House on May 25, less than a week after it was introduced, on a 66-1 vote. Former Rep. Robert Watson, R-East Greenwich, cast the only vote against it. The Senate passed the bill on June 11, and then-Gov. Don Carcieri signed it the same day.

Less than two months after the legislation's enactment, the EDC board used \$75 million from the \$125 million program to entice 38 Studios from Massachusetts to Providence.

Most rank-and-file lawmakers have since said they had no idea when they voted for the program that so much of the money would go to Schilling's company, though many allege then-Speaker Fox knew what was happening. Mattiello was Fox's House majority leader at the time, but he has since said he too didn't know 38 Studios would receive so much of the money.

Fox, who remains a sitting lawmaker, and Costantino, who is now Gov. Lincoln Chafee's health and human services secretary, have both refused to discuss 38 Studios with reporters in recent months due to the various investigations. Fox is separately fighting a subpoena from one of the defendants in the state's civil lawsuit against the architects of the deal.

38 Studios collapsed in May 2012, leaving Rhode Island taxpayers on the hook for roughly \$90 million in payments to investors who bought the bonds that funded the company's move. The state budget passed this month included \$12.3 million in taxpayer money to cover the next two payments to the bondholders, over the vocal objections of some lawmakers.


Ted Nesi (tnesi@wpri.com (<mailto:tnesi@wpri.com>)) covers politics and the economy for WPRI.com and writes the *Nesi's Notes* blog (<http://blogs.wpri.com/author/tednesi/>). Follow him on Twitter: [@tednesi](http://twitter.com/tednesi) (<http://twitter.com/tednesi>)

Tim White (twhite@wpri.com (<mailto:twhite@wpri.com>)) is the *Target 12* (http://www.wpri.com/subindex/target_12) investigative reporter for WPRI 12 and Fox Providence. Follow him on Twitter: [@white_tim](http://twitter.com/#!/white_tim) (http://twitter.com/#!/white_tim)

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Disgruntled Rhode Islander • 18 hours ago

Finally. It seemed to me that most of the Dems were quick to agree to make this year's payment (only half of which is due in November) as an act of self-preservation. There is no doubt that eventually the facts will be uncovered. However, it looked as if the Democratic leaders and candidates agreed in order to delay the "revelations" until AFTER the election. Continuous discovery of negative information throughout the campaign season would be most detrimental especially to incumbent legislators hoping to be reelected. Speaker Mattiello did his part by reneging on his promise to give Chwmm. MacBeth and her committee members subpoena power. Dem. gubernatorial candidates pretty much agreed to initiate an investigation AFTER the election. The bottom line is that all but one Republican Rep (Watson) pushed their green buttons to approve this deal.

I hope all Rhode islanders appreciate the courage and persistence of Chairwoman MacBeth and members of her committee who are committed to pursuing the answers in spite of the roadblocks ahead of them.

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John • 15 hours ago

This entire episode is just the tip of an iceberg of corruption in the state house and the offices of government in RI. What's sorely needed here in addition to the state police investigation is the appointment of a special prosecutor and a thorough SEC investigation into payoffs, unusual trading patterns in 38 studios bonds, unusual fee arrangements with hedge funds managing RI state retirement money, and suspicious collusion between the various branches of government in RI and consultants with connections reaping millions of dollars in fees for greasing the wheels of government for special interests.

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analyzethis • 14 hours ago

Carcieri, Fox, Paiva-Weed, Stokes and Corso all knew what was happening. Paiva-Weed's name is being purposefully left out of any references to that by the media.

All Rhode Island residents should be disgusted that our State Police publicly state that Attorney General Kilmartin is capable of investigating something that he himself was involved in. Recuse yourself and appoint an independent prosecutor to investigate.

3   • Reply • Share ▾



Ted • 19 hours ago

Isn't each Trooper appointed by the General Assembly?

3   • Reply • Share ▾



RI RED • 10 hours ago

We are all set....the RI AG is heading up this investigation....

2   • Reply • Share ▾



BVPalazzo • 13 hours ago

You people actually expect the RISP to conduct an unbiased investigation of the GA "Leadership"? Are you on drugs? They are deign to go after the GA. It's a "target rich environment" yet they have gone after how many? And this time it's going to be different? Yeah Right... Been there, done that, given them data yet Nothing, Nada, Zip!!!

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Carol DeFeciani • 18 hours ago

hope dumb-as-a-stump Nicky is crapping his pants.

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Jeff crawford • 3 minutes ago

Make each of them as uncomfortable as possible when you question them because several of them are as guilty as sin. Better yet, offer a deal of immunity to the first 10 that are willing to spill their guts and implicate the rest.

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Speaker: Police to talk to lawmakers on 38 Studios

Posted: Jun 18, 2014 12:57 PM EDT

Updated: Jun 18, 2014 6:47 PM EDT

By Associated Press

PROVIDENCE - State police plan to interview all lawmakers who voted on the job creation program under which former Boston Red Sox pitcher Curt Schilling's now-bankrupt company received a \$75 million state-backed loan, the House speaker told members Wednesday.

In an email, Speaker Nicholas Mattiello said he was contacted by state police Tuesday and "informed that they would like to ask questions of every member, past and present, who participated in the voting" on the loan program.

Mattiello told lawmakers he would be providing cellphone numbers to police unless anyone objected. As of Wednesday afternoon, one member did, and that representative's number was not turned over.

In an interview, the speaker said he's "thrilled" that state police are investigating the 38 Studios debacle and he has full confidence in their probe. He said he was not told, nor did he ask, about the investigation's scope.

Senate President Teresa Paiva Weed's spokesman Greg Pare said state police head Col. Steven O'Donnell also had contacted her to say authorities would be reaching out to senators.

In a statement, O'Donnell stressed that no one is suspected of wrongdoing "simply because of their vote."

He and state Attorney General Peter Kilmartin have said previously they are conducting a criminal investigation into 38 Studios. O'Donnell on Wednesday called it active and ongoing and said the goal of contacting lawmakers is to "ensure that anyone with information, who has not been previously contacted, has the opportunity to present it."

He said he's aware Kilmartin supported the loan guarantee bill when he was in the legislature but is satisfied the attorney general has no conflict in the case.

Federal authorities conducted a probe but have since said it is closed.

The General Assembly hurriedly approved the loan guarantee program in 2010. It wasn't disclosed at the time that 38 Studios stood to get funding. Once the program was approved by the legislature, the former Economic Development Corp. approved the guarantee, which was backed by bonds.

The agency is now suing Schilling and 13 others, saying its board was misled. Schilling has said Studios fully disclosed its financial condition to the Economic Development Corp.

Rhode Island owes more than \$89 million in connection with the transaction.

The 2014-15 state budget approved by the General Assembly includes \$12.3 million for the next bond payment related to 38 Studios. Some lawmakers have called for the state to default, saying there are too many unresolved questions about the deal to go ahead.

Mattiello said Wednesday he offered to make himself available to investigators to answer "whatever questions they ask me." He said he knew nothing at the time of the 2010 vote about funding being contemplated for 38 Studios. He called the loan guarantee program a good bill that was misapplied by the Economic Development Corp.

R.I. State Police looking to talk to legislators about 38 Studios vote

June 18, 2014 10:29 PM

BY KATHERINE GREGG

Journal State House Bureau

kgregg@providencejournal.com

PROVIDENCE, R.I. — Shortly after noon on Wednesday, House Speaker Nicholas A. Mattiello put his House colleagues on notice that the Rhode Island State Police want to talk to them about their May 2010 votes on the loan-guaranty legislation that resulted in the 38 Studios debacle.

His 12:08 p.m. email said:

"Dear Colleagues: I have been contacted by the Rhode Island State Police and have been informed that they would like to ask questions of every member, past and present, who participated in the voting of the Job Creation Guarantee [sic] Program (2010-H 8158) on May 25, 2010.

"They have requested cell numbers. I will be providing the cell numbers of all who participated in the vote, unless I receive an objection from you by this afternoon at 4 p.m."

Hours later, a Senate spokesman confirmed that State Police Supt. Steven G. O'Donnell had also "reached out to the senate president and advised that the state police would be contacting members of the Senate as part of their investigation. The senate president thanked the state police for the work they are doing. The Senate will assist in any way they can."

In response to a Providence Journal inquiry about this new sign of activity, O'Donnell initially emailed this response: "Our investigation is ongoing and I can't discuss anything more than that."

But the state police later sent a statement from O'Donnell titled "38 Studios clarification" that said: "This request was intended to ensure that any legislator, who has relevant information regarding the 2010 vote on the 'Job Creation Guarantee Program,' provides that information to investigators.

"The investigation of this loan, being conducted by the State Police and the Attorney General, remains active and ongoing. It is important to recognize that the goal of this request is to ensure that anyone with information, who has not been previously contacted, has the opportunity to present it. No member of the legislature is suspected of wrongdoing simply because of their vote."

State lawmakers just approved a new state budget that includes \$12.3 million in taxpayer dollars for the next payment to the investors who bought the \$75 million in state-backed bonds that financed ex-Red Sox player Curt Schilling's now bankrupt video-game company, 38 Studios.

When contacted, Mattiello issued this statement: "I am fully cooperating with the state police, and I am happy to assist them. I thank the state police for the thoroughness of their investigation."

When asked when and how he was contacted, Mattiello said through a spokesman that O'Donnell contacted him on Tuesday by phone.

"Colonel O'Donnell called me yesterday and requested the phone numbers of all the members in order to contact them. I voluntarily informed the colonel that I would make myself available to him and the state police at any time."

Asked if he or any other House leaders had been subpoenaed to testify or produce records, his spokesman, Larry Berman, said, "No."

In the aftermath of the failed state investment, rank-and-file lawmakers have complained bitterly that they had no idea so much of the \$125 million in loan guarantees they approved in May 2010 would go to Schilling's high-risk and under-capitalized video-game venture.

As for the loan-guaranty program, \$75 million went to 38 Studios; only three other companies got state-backed loans totaling \$6.5 million before the legislature torpedoed the loan program in 2013. They were NuLabel Technologies, \$1.5 million; The Corporate Marketplace, \$4 million, and eNow, \$1 million.

Documents that have come to light in recent months indicate that former House Speakers Gordon D. Fox and William G. Murphy had contact with the company as far back as fall 2009. They also indicate that lawyer and tax broker Michael Corso, a Fox ally, stood to make millions of dollars from a 38 Studios move from Maynard, Mass., to Providence from a series of contracts he lined up with the company.

Related



House Speaker Nicholas A. Mattiello informed members of the House by email Wednesday that the state police were looking to talk to those involved with the 38 Studios loan-guaranty vote.

The company's collapse into bankruptcy left Rhode Island taxpayers on the hook for about \$89 million in principal and interest on the "moral obligation bonds," paying interest rates of up to 7.75 percent, that the state's economic development agency sold to raise money for 38 Studios.

Federal authorities bowed out of the criminal investigation of 38 Studios almost two years ago. But state police say they are still investigating.

The current attorney general, former state Rep. Peter Kilmartin, was one of the lawmakers who voted in 2010 for the loan-guaranty legislation that helped launch 38 Studios. His spokeswoman, Amy Kempe, said he has assigned "an experienced white-collar prosecutor to assist the state police in their investigation," but has seen no reason to distance himself because "there is no conflict."

"He was not aware that 38 Studios would benefit from the loan guaranty program," she said of Kilmartin's 2010 vote.

It is not clear if the state police interviewed Kilmartin. But O'Donnell in his statement said: "I am aware that the Attorney General, as a former representative, voted on this legislation. I remain satisfied that he has no conflict in this case, based upon his role as a legislator, and I have full confidence in the professionalism of the career prosecutors he has assigned to this investigation."

POLITICS | Rhode Island & U.S.

June 15, 2014 11:15 PM EDTJune 15, 2014 11:21 PM EDTPolitical Scene: Latest rebellion over 38 Studios loan runs out of gas in R.I. Assembly

Political Scene: Latest rebellion over 38 Studios loan runs out of gas in R.I. Assembly

Published: June 15, 2014 11:15 PM

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By Randal Edgar and Katherine Gregg

Randal Edgar and Katherine GreggProvidence Journal

Journal State House Bureau

kgregg@providencejournal.com

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Social impact bonds legislation advances in Senate despite strong union opposition

Rhode Island Senate passes bill increasing fines for littering

For all the debate over whether the state should or shouldn't make the next payment to the investors in ex-Red Sox pitcher Curt Schilling's failed 38 Studios video-game company, there was no one vote during last week's House budget debate that allowed lawmakers to take sides just on that issue.

Perhaps the closest the lawmakers came was when they voted on Rep. Michael Chippendale's bid to use the \$12.3 million earmarked for the next payment of the state-backed 38 Studios loan to reduce the state's 33-cent gasoline tax by 3 cents instead.

His proposed amendment to the budget bill failed on a 65-to-7 vote.

But the debate was among the most heated of the night.

"Vote this amendment, do everyone a favor, if you have the guts," Chippendale, R-Foster, urged his colleagues.

In the end, those voting in favor were Republican Representatives Chippendale, Doreen Costa, Anthony Giarrusso, Patricia Morgan and Brian Newberry, and Democratic Representatives Karen MacBeth and James McLaughlin.

Voting against were Representatives Marvin Abney, Mia Ackerman, Edith Ajello, Joseph Almeida, Gregg Amore, Samuel Azzinaro, David Bennett, Christopher Blazejewski, Dennis Canario, John Carnevale, Stephen Casey, Maria Cimini, Elaine Coderre, Arthur Corvese, Gregory Costantino, Robert Craven, John DeSimone, Grace Diaz, Spencer Dickinson, John Edwards, Deborah Fellela, Frank Ferri, Linda Finn, Gordon Fox, Raymond Gallison, Scott Guthrie, Arthur Handy, Joy Hearn, Raymond Hull, Robert Jacquard, Raymond Johnston, Katherine Kazarian, Cale Keable, Brian Kennedy, Charlene Lima, John Lombardi, Michael Marcello, Kenneth Marshall, Peter Martin, Joseph McNamara, Helio Melo, Mary Messier, Michael Morin, Eileen Naughton, Jared Nunes, William O'Brien, Jeremiah O'Grady, Patrick O'Neill, Thomas Palangio, Peter Palumbo, Robert Phillips, Deborah Ruggiero, Patricia Serpa, Joseph Shekarchi, Agostinho Silva, Scott Slater, Teresa Tanzi, Lisa Tomasso, Joseph Trillo, Stephen Ucci, Larry Valencia, Donna Walsh, Anastasia Williams, Thomas Winfield and House Speaker Nicholas Mattiello.

The tally shows that only two of the 37 current lawmakers who voted for the 2010 loan-guaranty bill that led to 38 Studios supported Chippendale's amendment — MacBeth, who is now the House Oversight Committee chairwoman, and Newberry, who is now the House minority leader.

The outcome was similar on Morgan's amendment to appoint a special prosecutor to investigate the deal and find out what went wrong and who benefitted.

It failed, 61 to 11, with Morgan, Chippendale, Giarrusso, Hearn, MacBeth, Marcello, McLaughlin, Newberry, Nunes, Tanzi and Trillo voting in favor. That group includes 5 of the original 37 — MacBeth and Newberry, as well as Hearn, Marcello and Trillo.

Among those voting against a special prosecutor: Fox, who was House speaker in 2010.

Family dinner

Only in Rhode Island.

The veal and peas served to lawmakers in House Deputy Speaker Charlene Lima's office during the dinner break in the marathon House budget debate on Thursday night came from a catering company owned by the wife of House Speaker Nicholas Mattiello's cousin.

In response to a Political Scene inquiry, House spokesman Larry Berman confirmed that the owner of Pranzi Catering is Lisa Mattiello, wife of the speaker's cousin, also named Nicholas Mattiello, and the catering business is located in Lima's House district.

Berman said Pranzi is one of several food vendors the General Assembly uses from time to time, and the catering company had been paid \$3,300 by the Joint Committee on Legislative Services (JCLS) through May 31.

But Berman said — and Lima confirmed — that she intends to pay, out of her own campaign fund, for the dinner for 30 she served buffet-style in her office for anyone who stopped by.

Taxpayers will ultimately pay for the sandwiches that Pranzi provided lawmakers as they arrived for the scheduled 2 p.m. start of the night-long budget debate, and for the sausage and peppers, pasta and meatballs, and chicken that Tommy's Pizza provided in the House lounge during the dinner break.

"When members and staff are required to work late, such as on the day the budget is considered, the JCLS provides a meal," Berman explained. In this case, "members were asked to come to session early, and they were informed that lunch would be provided."

The House and Senate gave themselves a \$155,000 food budget for the year, which ends on June 30. Through May, they had spent \$100,812.

Singled out

Axing a state contract is not unprecedented, but actually naming the consultant whose contract is being axed in state budget documents is a bit unusual.

But that is exactly what legislative budget-writers did on page 21 of the House budget summary in the case of lame-duck Governor Chafee's "federal liaison" Sam Reid.

The budget document says: "The House Finance Committee does not concur with the Governor's recommendation to include \$35,000 for FY 2014 and \$25,000 for FY 2015 from general revenues for contractual service expenditures for Hope and Reid LLC to serve as the Governor's federal liaison."

The last time Reid made news was in February 2013 when Political Scene named him as one of the hosts of a Feb. 25 fundraiser for Governor Chafee in Washington, D.C. His co-hosts included all four members of the state's all-Democrat congressional delegation, former U.S. Rep. Patrick J. Kennedy and a bevy of well-known lobbyists in Rhode Island.

In an interview at that time, Reid described himself as a “large Chafee supporter for many years” who had known and worked with the governor in different capacities since Chafee was Warwick mayor, and helped him throw four or five fundraisers over the years.

At that point, Reid was still a registered lobbyist in Washington for the “office of governor, state of Rhode Island,” His address: 1344 30th St., Washington, D.C. His stated mission: “supporting governor of Rhode Island with creating and achieving federal priorities.”

A new “memorandum of understanding” was signed in 2013 that anticipated the payment of \$100 an hour to Reid for up to 250 hours.

He had a similar role — and the title “Washington office director” — in the Almond administration until 2001 when he left to become deputy assistant secretary of government affairs at the U.S. Department of Transportation. Reid had previously worked as Almond’s senior adviser for transportation, the environment and energy policy from 1995 to 1998 before being named Washington office director.

Hope and Reid has been paid \$21,382 so far in this fiscal year, which ends on June 30.

Asked why the contract was defunded, House spokesman Larry Berman said: “This is not political. If the Governor felt the position was necessary, he has the resources in his contingency fund to pay for this new initiative.”

Chafee, who has been running a surplus in his own budget “due to end of term attrition,” did not object, his spokeswoman Faye Zuckerman said.

Inroads for women

Governor Chafee got a nod of thanks last week from the Women’s Fund of Rhode Island for “his years of leadership in bringing meaningful gender equality to Rhode Island.”

“It’s been nearly four years since Governor Chafee signed our RIGAP pledge promising that if elected governor, he would work to more than double the percentage of women appointed to boards and commissions, as well as high-level staff and cabinet positions in his administration,” said Women’s Fund of Rhode Island CEO Marcia Coné.

It is not clear if he actually doubled the numbers, but Coné said: “The Governor has held a strong record of appointing women to cabinet-level positions, state boards and commissions, and senior level staff, ensuring that women’s voices are included when critical decisions about the future of our state are made.”

By the Chafee administration’s own count, the total number of women that Chafee has appointed since he took office is 537, compared with the 763 men he appointed during the same period of time, according to his spokeswoman Faye Zuckerman.

At the highest levels, that includes state environmental director Janet Coit; human services director Sandra Power; revenue director Rosemary Booth Gallogly; emergency management director Jamia

McDonald; Department of Children, Youth and Families director Janice DeFrances; the governor's legal counsel, Claire Richards; and elderly affairs director Catherine Taylor, who has resigned effective June 20 to run for lieutenant governor.

Chafee also counts: Margaret E. "Meg" Curran, former U.S. Attorney, as chair of the Rhode Island Public Utilities Commission; Marion Gold, energy commissioner; Mental Health Advocate Megan N. Clingham; Dr. Kathleen Hittner, the state health insurance commissioner; Eva-Marie Mancuso, chair, Rhode Island Board of Education; and Family Court Judges Patricia K. Asquith and Sandra Lanni.

The so-called RIGAP project — which stands for Rhode Island Government Appointments Project — was initially co-chaired by Sue Stenhouse, Myrth York and the late Susan Farmer.

Alan Weiss: Interview EDC officers about 38 Studios

June 16, 2014 07:36 AM

The mystery to me about the 38 Studios bond debacle is why every officer and member of the then-Economic Development Corporation isn't being interviewed to find out what due diligence was performed (or omitted) and what, if anything, they had to personally gain from the transaction. Many of these people jumped ship at the speed of light once the fiasco surfaced. People are too eager to gain the power of a seat on a public board, and all too anxious to avoid the consequences of their poor decisions. If we don't establish why these people, charged with the public trust and treasury, acted the way they did, we're likely to appoint similar people who make identical mistakes. This was either a colossal error in judgment, or massive incompetence.

Alan Weiss

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Political Scene: Latest rebellion over 38 Studios loan runs out of gas in R.I. Assembly

June 15, 2014 11:15 PM

BY RANDAL EDGAR AND
KATHERINE GREGG

Journal State House Bureau

kgregg@providencejournal.com

For all the debate over whether the state should or shouldn't make the next payment to the investors in ex-Red Sox pitcher **Curt Schilling's** failed 38 Studios video-game company, there was no one vote during last week's House budget debate that allowed lawmakers to take sides just on that issue.

Perhaps the closest the lawmakers came was when they voted on Rep. **Michael Chippendale's** bid to use the \$12.3 million earmarked for the next payment of the state-backed 38 Studios loan to reduce the state's 33-cent gasoline tax by 3 cents instead.

His proposed amendment to the budget bill failed on a 65-to-7 vote.

But the debate was among the most heated of the night.

"Vote this amendment, do everyone a favor, if you have the guts," Chippendale, R-Foster, urged his colleagues.

In the end, those **voting in favor** were Republican Representatives Chippendale, Doreen Costa, Anthony Giarrusso, Patricia Morgan and Brian Newberry, and Democratic Representatives Karen MacBeth and James McLaughlin.

Voting against were Representatives Marvin Abney, Mia Ackerman, Edith Ajello, Joseph Almeida, Gregg Amore, Samuel Azzinaro, David Bennett, Christopher Blazejewski, Dennis Canario, John Carnevale, Stephen Casey, Maria Cimini, Elaine Coderre, Arthur Corvese, Gregory Costantino, Robert Craven, John DeSimone, Grace Diaz, Spencer Dickinson, John Edwards, Deborah Fellela, Frank Ferri, Linda Finn, Gordon Fox, Raymond Gallison, Scott Guthrie, Arthur Handy, Joy Hearn, Raymond Hull, Robert Jacquard, Raymond Johnston, Katherine Kazarian, Cale Keable, Brian Kennedy, Charlene Lima, John Lombardi, Michael Marcello, Kenneth Marshall, Peter Martin, Joseph McNamara, Helio Melo, Mary Messier, Michael Morin, Eileen Naughton, Jared Nunes, William O'Brien, Jeremiah O'Grady, Patrick O'Neill, Thomas Palangio, Peter Palumbo, Robert Phillips, Deborah Ruggiero, Patricia Serpa, Joseph Shekarchi, Agostinho Silva, Scott Slater, Teresa Tanzi, Lisa Tomasso, Joseph Trillo, Stephen Ucci, Larry Valencia, Donna Walsh, Anastasia Williams, Thomas Winfield and House Speaker Nicholas Mattiello.

The tally shows that only two of the 37 current lawmakers who voted for the 2010 loan-guaranty bill that led to 38 Studios supported Chippendale's amendment — MacBeth, who is now the House Oversight Committee chairwoman, and Newberry, who is now the House minority leader.

The outcome was similar on Morgan's amendment to appoint a special prosecutor to investigate the deal and find out what went wrong and who benefitted.

It failed, 61 to 11, with Morgan, Chippendale, Giarrusso, Hearn, MacBeth, Marcello, McLaughlin, Newberry, Nunes, Tanzi and Trillo voting in favor. That group includes 5 of the original 37 — MacBeth and Newberry, as well as Hearn, Marcello and Trillo.

Among those voting against a special prosecutor: Fox, who was House speaker in 2010.

Family dinner

Only in Rhode Island.

The veal and peas served to lawmakers in House Deputy Speaker **Charlene Lima's** office during the dinner break in the marathon House budget debate on Thursday night came from a catering company owned by the wife of House Speaker Nicholas Mattiello's cousin.

In response to a Political Scene inquiry, House spokesman **Larry Berman** confirmed that the owner of Pranzi Catering is **Lisa Mattiello**, wife of the speaker's cousin, also named Nicholas Mattiello, and the catering business is located in Lima's House district.

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Berman said Pranzi is one of several food vendors the General Assembly uses from time to time, and the catering company had been paid \$3,300 by the Joint Committee on Legislative Services (JCLS) through May 31.

But Berman said — and Lima confirmed — that she intends to pay, out of her own campaign fund, for the dinner for 30 she served buffet-style in her office for anyone who stopped by.

Taxpayers will ultimately pay for the sandwiches that Pranzi provided lawmakers as they arrived for the scheduled 2 p.m. start of the night-long budget debate, and for the sausage and peppers, pasta and meatballs, and chicken that Tommy's Pizza provided in the House lounge during the dinner break.

"When members and staff are required to work late, such as on the day the budget is considered, the JCLS provides a meal," Berman explained. In this case, "members were asked to come to session early, and they were informed that lunch would be provided."

The House and Senate gave themselves a \$155,000 food budget for the year, which ends on June 30. Through May, they had spent \$100,812.

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Singled out

Axing a state contract is not unprecedented, but actually naming the consultant whose contract is being axed in state budget documents is a bit unusual.

But that is exactly what legislative budget-writers did on page 21 of the House budget summary in the case of lame-duck **Governor Chafee's "federal liaison" Sam Reid.**

The budget document says: "The House Finance Committee does not concur with the Governor's recommendation to include \$35,000 for FY 2014 and \$25,000 for FY 2015 from general revenues for contractual service expenditures for Hope and Reid LLC to serve as the Governor's federal liaison."

The last time Reid made news was in February 2013 when Political Scene named him as one of the hosts of a Feb. 25 fundraiser for Governor Chafee in Washington, D.C. His co-hosts included all four members of the state's all-Democrat congressional delegation, former U.S. Rep. **Patrick J. Kennedy** and a bevy of well-known lobbyists in Rhode Island.

In an interview at that time, Reid described himself as a "large Chafee supporter for many years" who had known and worked with the governor in different capacities since Chafee was Warwick mayor, and helped him throw four or five fundraisers over the years.

At that point, Reid was still a registered lobbyist in Washington for the "office of governor, state of Rhode Island," His address: 1344 30th St., Washington, D.C. His stated mission: "supporting governor of Rhode Island with creating and achieving federal priorities."

A new "memorandum of understanding" was signed in 2013 that anticipated the payment of \$100 an hour to Reid for up to 250 hours.

He had a similar role — and the title "Washington office director" — in the Almond administration until 2001 when he left to become deputy assistant secretary of government affairs at the U.S. Department of Transportation. Reid had previously worked as Almond's senior adviser for transportation, the environment and energy policy from 1995 to 1998 before being named Washington office director.

Hope and Reid has been paid \$21,382 so far in this fiscal year, which ends on June 30.

Asked why the contract was defunded, House spokesman Larry Berman said: "This is not political. If the Governor felt the position was necessary, he has the resources in his contingency fund to pay for this new initiative."

Chafee, who has been running a surplus in his own budget "due to end of term attrition," did not object, his spokeswoman **Faye Zuckerman** said.

Inroads for women

Governor Chafee got a nod of thanks last week from the Women's Fund of Rhode Island for "his years of leadership in bringing meaningful gender equality to Rhode Island."

"It's been nearly four years since Governor Chafee signed our RIGAP pledge promising that if elected governor, he would work to more than double the percentage of women appointed to boards and commissions, as well as high-level staff and cabinet positions in his administration," said Women's Fund of Rhode Island CEO **Marcia Coné.**

It is not clear if he actually doubled the numbers, but Coné said: "The Governor has held a strong record of appointing women to cabinet-level positions, state boards and commissions, and senior level staff, ensuring that women's voices are included when critical decisions about the future of our state are made."

By the Chafee administration's own count, the total number of women that Chafee has appointed since he took office is 537, compared with the 763 men he appointed during the same period of time, according to his spokeswoman Faye Zuckerman.

38 Studios: Carcieri among 30 depositions scheduled

By Dan McGowan

Published: June 13, 2014, 7:09 pm



PROVIDENCE, R.I. (WPRI) – Former Rhode Island Gov. Don Carcieri is among 30 individuals scheduled to be deposed over the next two months by attorneys for the defendants in the state's civil suit against the architects of the failed 38 Studios deal, lawyers said Friday.

The final day for the discovery phase of the litigation is Aug. 15 and Superior Court Judge Michael Silverstein declined to extend the deadline for depositions by two weeks during a two-hour pre-trial hearing Friday morning.

The Chafee administration is suing former Red Sox pitcher Curt Schilling, former Rhode Island Economic Development Corporation director Keith Stokes and 12 others involved in the 38 studios deal, which brought Schilling's game company to Rhode Island in 2010 in exchange for a \$75-million taxpayer-guaranteed loan. The company filed for bankruptcy in 2012.

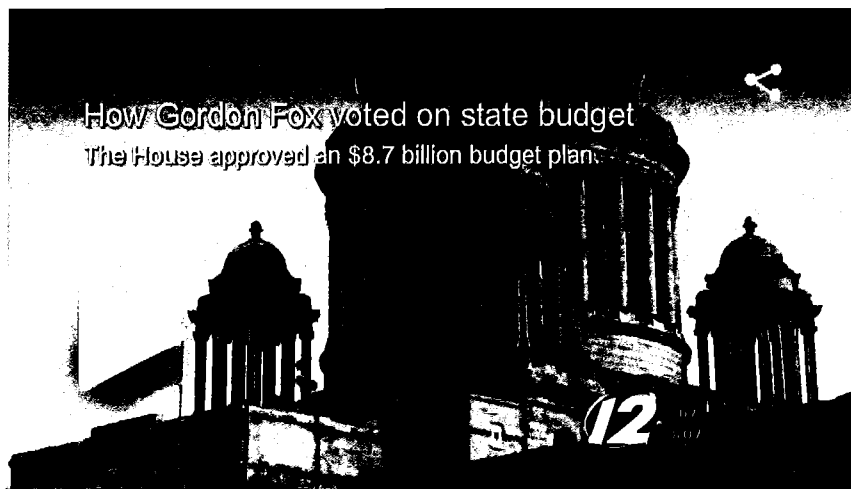
Lawyers for the defendants have said they aren't sure they'll be able to complete all the depositions before the Aug. 15 deadline, in part because many of them have taken two days, according to Gerald Petros, an attorney for First Southwest.

Petros said about 18 individuals have been deposed so far and another 30 are scheduled by the deadline, including Carcieri and former House Speaker Gordon Fox. Silverstein declined to quash a subpoena for testimony from Fox earlier this month.

Fox votes no on 38 Studios prosecutor

By Angie Angers; Reporting by Susan Campbell

Published: June 13, 2014, 7:00 pm



PROVIDENCE, R.I. (WPRI) — Despite controversy swirling around Gordon Fox, it appeared to be business as usual for the former House speaker at Thursday night's budget vote.

Fox didn't make a speech throughout the nearly nine-hour long debate. Eyewitness News tracked Fox's votes which included two measures related to the failed 38 Studios deal. Fox voted against an amendment that would have appointed a special prosecutor to investigate 38 Studios, while voting for the budget article that included \$12.3 million for the next 38 Studios bond payments.

All of this, while some of Fox's fellow lawmakers were railing against the 38 Studios deal and the former speaker's role in it (<http://wpri.com/2014/06/12/rhode-island-house-debating-8-7b-budget-plan/>).

"We created this debacle and yet we're not going to get to the bottom of it in this chamber? Come on, the people deserve more than that," said Rep. Michael Marcello (D) Scituate, Cranston.

The amendment to appoint a special prosecutor to investigate 38 Studios failed by a vote of 11 to 61.

The article to make the next payment on the 38 Studios bond passed by a vote of 60 to 15.



Oversight stymied on 38 Studios, lawmakers charge

Posted: Jun 13, 2014 1:18 PM EDT
Updated: Jun 13, 2014 3:09 PM EDT

PROVIDENCE, R.I. (AP) - Rhode Island House lawmakers who pushed unsuccessfully for an independent counsel on 38 Studios say they did so because the Oversight Committee has been stymied in its own efforts.

Republican Rep. Patricia Morgan introduced an amendment during Thursday's budget debate calling for an independent prosecutor to probe how ex-Red Sox pitcher Curt Schilling's startup got a \$75 million state-backed loan. That would include the General Assembly's role. Morgan said the legislature's oversight panels have been "throttled."

Oversight Chairwoman Karen MacBeth supported the measure and criticized her own Democratic leadership for not allowing subpoenas.

Majority Leader John DeSimone called the push for an outside counsel a diversion from the question of repaying the 38 Studios bonds. He says "all the facts" will come out in the lawsuit over 38 Studios' collapse.

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Oversight stymied on 38 Studios, lawmakers charge

Posted: Jun 13, 2014 3:51 PM EDT

Updated: Jun 13, 2014 6:24 PM EDT

By Associated Press

PROVIDENCE - The bipartisan group of Rhode Island House lawmakers that pushed unsuccessfully for an independent counsel to look at the state-guaranteed loan for ex-Red Sox pitcher Curt Schilling's company say they did so because an oversight panel has been stymied in its own efforts.

Rep. Patricia Morgan, R-Coventry, introduced an amendment during Thursday's marathon budget debate calling for an independent prosecutor to probe how video game startup 38 Studios got a \$75 million loan. That would include the role of the General Assembly, which in 2010 hurriedly authorized the program under which the loan guarantee was made. Rhode Island's economic development agency is suing Schilling and 13 others, claiming its board was misled into approving the deal.

"The people want to shine a light on what happened with this bond - why it happened, who did it, who had their hand in the money pot," said Morgan, referring to the bonds that financed the loan.

"The oversight committees have been throttled," she said. "They have not been given the powers that they need to get the answers."

House Oversight Chairwoman Karen MacBeth, D-Cumberland, supported the measure and likewise criticized the House leadership for not allowing subpoenas.

She said she believed she would have that power when she was appointed chair in March by the new speaker, Nicholas Mattiello. MacBeth and others have accused the former House leadership of lying to representatives at the time the loan guarantee program was passed; it was not disclosed that 38 Studios stood to get \$75 million.

"When I took over as the chairperson of Oversight, I really believed at that time, with our speaker, this was going to become the people's House," she said, invoking a phrase Mattiello uses often. "I haven't seen that yet."

Vice Chair Spencer Dickinson, D-South Kingstown, said residents "don't want a shoddy, slow-paced, maybe cut-off-at-the-knees Oversight Committee, they want a real Oversight Committee, they want subpoena power."

Mattiello has said previously the House is a legislative body, not an investigative one, and called subpoenas an "extraordinary" step. Spokesman Larry Berman said Friday Mattiello wants to first let investigations by the state police and attorney general play out, as well as the civil suit.

"It is not in the public interest to raise unrealistic expectations that issuing subpoenas is somehow a magic bullet that would be more effective than a state police or attorney general's investigation," Berman said.

Federal authorities long ago closed their investigation.

MacBeth's predecessor as Oversight chair said he too didn't have the proper tools to conduct a probe. Rep. Michael Marcello, D-Scituate, who ran for speaker against Mattiello, used public record requests to get tens of thousands of pages of documents. But he noted that such requests apply only to public bodies.

"Mr. Speaker, you're right, maybe no speaker has ever signed a subpoena," Marcello said in an impassioned floor speech late Thursday. "Be the first one, Mr. Speaker. Be the first speaker to tell this public that we're going to investigate this."

"We created this debacle and yet we're not going to get to the bottom of it in this chamber? Come on!"

Majority Leader John DeSimone, D-Providence, called the push for an outside counsel "salacious" and a "diversion" from the question of repaying the 38 Studios bonds. The House-approved budget includes \$12.3 million for that purpose.

He said "all the facts" would come out in the lawsuit over 38 Studios' collapse.

The measure for an independent prosecutor failed, 11-61.



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I-Team: Carcieri adviser had concerns over 38 Studios deal

Posted: Jun 13, 2014 3:55 PM EDT

Updated: Jun 13, 2014 3:55 PM EDT

By Parker Gavigan - email

PROVIDENCE - A key adviser to former Gov. Don Carcieri allegedly had reservations about the 38 Studios deal before it was complete.

The details emerged in Superior Court on Friday during the civil case to recoup Rhode Island's lost investment.

Thomas Holt, an attorney for Wells Fargo, one of 14 defendants in the case, mentioned a chain of emails that were exchanged between a Carcieri cabinet member and the then-governor's staff.

Rosemary Booth Gallogly was director of the state's Department of Administration in 2010 and a close advisor to the governor, eventually becoming director of the Department of Revenue.

Holt said Gallogly sent several emails to Carcieri through his chief of staff and assistant chief of staff in July of 2010 months before the 38 Studios deal was complete. She allegedly asked for the company's business plan, a report of an independent adviser and wrote she had "serious concerns."

The emails show someone inside the governor's circle and a key financial adviser had reservations about 38 Studios.

The state's former Economic Development Corp. is suing former Boston Red Sox pitcher Curt Schilling and the other defendants for being misled on the solvency of the company. The nature of the lawsuit is trying to examine who knew what and when they knew it.



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Telephone: 401.455.9100

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Construction company owner, others, deal with 'stigma or shame' for affiliation with 38 Studios

June 10, 2014 11:20 PM

Steve Szydlowski/The Providence Journal

The former headquarters of 38 Studios at 1 Empire Plaza in downtown Providence.

1 of 4



BY W. ZACHARY MALINOWSKI

Journal Staff Writer

bmalinow@providencejournal.com

PROVIDENCE, R.I. — Two years ago, a state trooper stopped by Nappa Construction Management LLC with a federal subpoena seeking all the records from a \$10-million project to gut and refurbish 38 Studios, home of ex-Red Sox pitcher Curt Schilling's failed video-game venture.

Steven M. Nappa, who has been a Providence-based contractor since 1991, said that he hired a retired state trooper with expertise in computers, to retrieve the construction records from his office and send them to the federal grand jury investigating possible wrongdoing that resulted in Schilling's firm filing for federal bankruptcy.

Nappa, president of the corporation, said he has not heard anything since. He said that he has not appeared before a grand jury and he has not been charged with any crimes.

But he said that he and others linked to 38 Studios and its \$75-million loan guaranty from the former state Economic Development Corporation have been unfairly tarnished.

"Everybody who was involved in the project has been left with a stigma or stain," Nappa said during an interview in his office on Washington Street, a short walk from the failed video-game company's downtown headquarters. "We were really, really proud of what we did."

Nappa, 56, is chairman of the Providence Building Board of Review, which decides on variances for projects that do not meet Rhode Island building codes. He performed work for the lawyer who brokered the 38 Studios loan and received a city loan before and during the time that his company was refurbishing the six-story, 104,000-square-foot brick building that once housed Blue Cross & Blue Shield of Rhode Island.

He said that Michael D. Corso, the lawyer who orchestrated the \$75-million loan guaranty to Schilling, contacted him about overhauling the building that became home to 38 Studios. Nappa said that Jennifer MacLean, 38 Studios' chief executive officer, signed off on the payments for the project from late 2010 into 2011.

The work was welcome. On April 1, 2010, seven months before Nappa began the job, a subsidiary company that he owns, Nappa Realty LLC, had filed for Chapter 11 bankruptcy. In its filing in U.S. Bankruptcy Court, the company — which shares

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- Nappa's company among many to receive loans from PEDP and to be in default

office space with Nappa Construction Management, at 469 Washington St. — said it had liabilities between \$500,001 and \$1 million and owed money to up to 49 creditors.

As of last week, city records show that Nappa still owed \$179,823 in principal on a \$250,000 loan his construction company had received from the Providence Economic Development Partnership in February 2009. Nappa said he plans to pay off the debt this month.

While Nappa's case was winding through Bankruptcy Court, the construction company started demolition work for 38 Studios in November 2010 — five months after the state EDC approved the loan that allowed Schilling to relocate his business from Massachusetts to Providence.

In early 2011, Nappa's subcontractors began renovations and improvements to six floors of the sprawling building at 1 Empire St., also known as 417 Westminster St. The work included electrical, plumbing, HVAC, heating and power sources for the vast computer and gaming systems.

Nappa said his firm acted as the construction manager and most of the work on the 38 Studios building was parceled out to 15 to 20 subcontractors. He said that his firm collected about \$500,000, or 5 percent, of the \$10-million project — one of the biggest jobs he had ever landed.

While the 38 Studios work progressed, the company received a \$100,000 contract for renovation work at Tazza, a restaurant and café on Westminster Street owned by Corso.

Nappa had worked on another of Corso's buildings, at 155 Chestnut St., in 2008. The company did \$21,500 worth of renovations at a hair salon in the building owned by Marcus LaFond, who is now married to former House Speaker Gordon D. Fox, D-Providence.

He said he had known Corso for years through work Corso had done for downtown developer Arnold "Buff" Chace. Corso hired Nappa for the projects at the hair salon and Tazza. "I knew him well," Nappa said.

Nappa said he has not had any business dealings with Corso since the 38 Studios project. Tazza, Corso's café, closed in January and the space remains vacant.

Nappa Realty emerged from bankruptcy on April 27, 2012, but he has only one full-time employee and a part-time secretary. He said his business has slowed to crawl because of the scandal involving 38 Studios and the state-backed loan.

Nappa said he has run into Fox several times at coffee shops but does not really know him or LaFond.

Fox, once the state's most powerful politician, resigned as House speaker on March 22, the day after the FBI, Internal Revenue Service and state police raided his State House office and East Side home, removing boxes of documents labeled "evidence."

Fox has not been charged with any crimes and there has been endless speculation about what, if anything, he did to become the subject of the federal probe. After a five-week absence from the State House, Fox returned April 30 to the General Assembly as a legislator representing the East Side of Providence.

The U.S. Attorney's office in Providence has declined to reveal the focus or the nature of the Fox investigation.

"We will cooperate fully with anybody who contacts us in law enforcement," he said.

Nappa said that he did contribute to Fox's campaign after a neighbor, who is a former state legislator, had urged him to do so. The neighbor said Fox was in line to become the next House speaker.

According to records from the state Board of Elections, Steven M. Nappa and Nappa Construction Management donated \$18,050 to the campaigns of a host of politicians, mostly Providence Democrats, between 2002 and 2013. Fox received \$2,000 between 2007 and 2008; former Providence Mayor David N. Cicilline, now a congressman, got \$3,000 between 2006 and 2008; and current Mayor Angel Taveras received \$3,000 between 2011 and 2013.

Nappa said he no longer makes political contributions.

With reports from Katherine Gregg

On Twitter: @billmalinowski

At the highest levels, that includes state environmental director **Janet Coit**; human services director **Sandra Power**; revenue director **Rosemary Booth Gallogly**; emergency management director **Jamia McDonald**; Department of Children, Youth and Families director **Janice DeFrances**; the governor's legal counsel, **Claire Richards**; and elderly affairs director **Catherine Taylor**, who has resigned effective June 20 to run for lieutenant governor.

Chafee also counts: **Margaret E. "Meg" Curran**, former U.S. Attorney, as chair of the Rhode Island Public Utilities Commission; **Marion Gold**, energy commissioner; Mental Health Advocate **Megan N. Clingham**; Dr. **Kathleen Hittner**, the state health insurance commissioner; **Eva-Marie Mancuso**, chair, Rhode Island Board of Education; and Family Court Judges **Patricia K. Asquith** and **Sandra Lanni**.

The so-called RIGAP project — which stands for Rhode Island Government Appointments Project — was initially co-chaired by **Sue Stenhouse**, **Myrth York** and the late **Susan Farmer**.

On Twitter: @kathyprojo redgar@providencejournal.com | On Twitter: @randyedgar1



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Oversight panel chair asks why agency needs 20 more days to produce 38 Studios forensic audit she says 'wasn't done'

June 11, 2014 11:20 PM

BY KATHERINE GREGG

Journal State House Bureau

kgregg@providencejournal.com

PROVIDENCE, R.I. — The chairwoman of the House Oversight Committee is questioning why the state agency that crafted the failed 38 Studios loan deal needs "an additional 20 business days" to produce records of a forensic audit that "wasn't done."

The questions were posed by Rep. Karen MacBeth, D-Cumberland, during a televised House Finance Committee hearing on her bill to ban any further state payments of the \$75 million in moral obligation bonds that financed ex-Red Sox pitcher Curt Schilling's doomed videogame company.

The House will vote Thursday on a proposed state budget that includes \$12.3 million in taxpayer dollars for the next payment due the bondholders. Including principal and interest, taxpayers are on the hook for an overall \$89 million for the failed state-backed loan.

When MacBeth first asked for copies of the forensic audit that Governor Chafee publicly demanded in 2012, when 38 Studios was on the verge of collapse, she was told: "It wasn't done."

During Tuesday night's hearing, she said, she subsequently asked in writing on May 22 for all records of the aborted audit — which had been the subject of numerous news stories — and received this June 6 response from Matthew R. Shechtman, a lawyer for the state's recently renamed Economic Development Corporation:

"We are in the process of searching, retrieving and reviewing the corporation's files to respond to your request in a complete and comprehensive manner," but need to "invoke our right to extend for "good cause" the time period to respond for an additional 20 business days ... [because] of the voluminous nature of the request and to avoid an undue burden on the corporation."

"An undue burden on the corporation," MacBeth repeated. "We have an undue burden right now [on] the people of the state, and that is 38 Studios. ...It's an undue burden of \$175, roughly, for each taxpayer."

"We have people on limited incomes. We have disabled people. We have elderly people. We have people like myself who are trying to put children through school. That \$175 sure does mean a lot to me. It means a lot to the people of the state."

"An undue burden [on] the corporation' to get us documents tells me we don't have the information we need to make this decision for the budget. They want more time, then we should have more time," she said in her comments to the House Finance Committee 48 hours in advance of Thursday's House budget vote.

The budget bill includes \$12.3 million for the next payment to the big institutional investors, and the college and hospital endowment funds — and the Wells Fargo Corporation Pension Plan — that purchased the moral obligation bonds.

"This payment is not due until November," MacBeth said. "It doesn't have to be in the budget in two days. We don't have to vote on this in two days. We can put this off."

No vote was taken on her bill except to hold it for further study.

In her records request, MacBeth had asked for "all records relating to the hiring of Deloitte LLP to conduct a forensic audit of 38 Studios; all records relating to the determination to not pursue a forensic audit of 38 Studios ... any communications between the corporation and Deloitte... [and] Braver PC ... relating to the forensic audit."

Chafee announced his intent to seek a forensic audit of Schilling's video-game company on May 25, 2012, after the failing company went into default on its \$75-million loan agreement by laying off nearly 300 employees without notifying the state.

"We just want to know everything possible," Chafee told about 30 reporters at the State House that day. "The taxpayers have tens of millions of dollars invested in this company. It has been difficult to get answers from them. We want to know everything possible about what happened to every penny of [those] taxpayer dollars."

When asked about that audit last month, Chafee's spokeswoman, Faye Zuckerman, said there was no audit, after all.

Related

- 38 Studio investors include hospital, higher education endowment funds, pension plan

Once the company filed for bankruptcy and a trustee took control, "the focus turned to liquidation of a closed company and recovery through potential legal avenues," according to information she provided from Thomas Carlotto, recently renamed legal counsel for the economic development agency.

On Twitter: @KathyProJo



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Finance panel takes up bill that would nix 38 Studios payment

By Chris Raia

Published: June 10, 2014, 12:45 pm | Updated: June 10, 2014, 8:33 pm



The 38 Studios company logo is superimposed over a picture of the Rhode Island State House in Providence.

PROVIDENCE, R.I. (WPRI) – A bill that would prevent Rhode Island from making this year's payment on the moral obligation bonds related to 38 Studios was taken up by the House Finance Committee Tuesday evening.

The budget [approved by the House Finance Committee last week \(http://wpri.com/2014/06/05/ri-lawmakers-budget-cuts-corporate-estate-taxes/\)](http://wpri.com/2014/06/05/ri-lawmakers-budget-cuts-corporate-estate-taxes/) included the \$12.3 million payment to pay back a portion of the bonds sold as part of the failed deal. The payment has long been a controversial issue, on which a recent WPRI 12 / Providence Journal poll showed the state is just about evenly split.

It was also, according to Rep. Karen MacBeth, one of the primary reasons the finance panel debated the budget proposal late into Thursday night before unveiling its budget proposal. MacBeth and Rep. Patricia Morgan represented the pair of nay votes in a 14-2 approval.

"I stay strong on the position and don't waver," she said, "There is no evidence that the bonds do need to be paid, each representative has a decision to weigh the evidence and make a decision for the constituents."

MacBeth, who also chairs the House Oversight Committee, is now re-introducing legislation that would prevent the Commerce Corp. – previously the Economic Development Corporation – and the state from making any payments related to the 38 Studios bonds.

The bill's (<http://webserver.rilin.state.ri.us/BillText/BillText14/HouseText14/H7248.pdf>) other sponsors include Reps. Patrick O'Neill, James McLaughlin, Spencer Dickinson and Michael Chippendale.

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38 Studio investors include hospital, higher education endowment funds, pension plan

June 10, 2014 10:54 PM

BY KATHERINE GREGG

Journal State House Bureau

kgregg@providencejournal.com

PROVIDENCE — A half-dozen of the missing 38 Studios “investor letters” have finally turned up, and they provide new information about the insurance companies, hospital and university endowment funds and others which, in 2010, purchased the \$75 million in state-backed bonds that financed ex-ballplayer Curt Schilling’s now-bankrupt video-game company.

The original investors included the Attorney’s Liability Protection Society, the South Dakota State University Endowment Foundation and the Wells Fargo Corporation Pension Plan.

The letters signed on their behalf, by their portfolio managers, said they were each “sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of taxable bonds, to be able to evaluate the risks and merits of the investment.”

By signing the letters, the buyers also affirmed they were “able to bear the economic risks of an investment in the bonds ... [and] withstand without material injury a complete loss of investment in the bonds.”

The letters were a requirement of the bond sale. Copies were supposed to go to no fewer than 10 entities, including two securities firms, five law firms and 38 Studios. One copy was also supposed to go to the state’s Economic Development Corporation [now known as the Rhode Island Commerce Corporation].

But CommerceRI was unable to produce them.

In fact, as recently as May 27, the agency’s spokeswoman, Melissa Czerwein, said: “The records of the RIEDC do not reflect the receipt of the investor letters as anticipated in connection with the private placement of the bonds in November 2010.”

On Monday, however, on the eve of a packed State House hearing on House Oversight Chairwoman Karen MacBeth’s legislation to prohibit repayment of the 38 Studios bonds, that changed.

Responding to an open-records request from The Journal, Commerce Corporation lawyer Matthew R. Shechtman provided copies of six investor letters that, he said, were produced to EDC “during the discovery phase” of the state’s lawsuit against Schilling and other key players in the loan deal.

In the case known as Economic Development Corporation v. Wells Fargo Securities, LLC et al., the state alleges fraud, negligence and breach of financial duty by multiple parties.

With regard to Wells Fargo specifically, the state alleges in its lawsuit, that Wells Fargo did not disclose that it was “earning nearly \$500,000 in hidden commissions from 38 Studios” while working for the state agency that crafted the loan deal: the EDC.

When asked where the long-lost investor letters came from, Shechtman said: “The Letters were produced by Wells Fargo Securities, LLC (“Wells Fargo”) to the Corporation’s litigation counsel on or about December 18, 2013.”

On the list

Some of the names on the investor letters were indecipherable.

But Shechtman produced a list of the six “original purchasers” of the \$75 million in bonds and the amounts they each purchased. They included: Transamerica Fund Management, \$23,685,000; USAA, \$35,955,000; W.R. Berkley Corp., \$8,860,000; Sit Investments, \$5 million; Country Companies, \$1 million; United Heritage, \$500,000.

In one of the letters, Michael C. Brilley, the chief fixed-income investment officer of Sit Investment Associates in Minnesota, acknowledged that his firm’s \$5-million purchase was made on behalf of others.

He attached a list to his letter that included: The Attorneys Liability Protection Society (\$500,000), Pitt County Memorial Hospital (\$400,000), South Dakota State University Endowment Foundation (\$150,000), George Gund Foundation (\$200,000), Minnesota Lawyers Mutual Insurance Company (\$500,000), Mayo Foundation General Fund (\$500,000), Germantown Mutual Insurance Company (\$250,000), Ohio Indemnity (\$500,000), Cape Fear Valley Health System (\$500,000), Acuity (\$1 million) and the Wells Fargo Corporation Pension Plan (\$500,000).

The bonds were sold in three blocks totaling \$75 million and paid interest ranging from 6 percent to 7.75 percent annually.

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- Fung supports SEC probe into 38 Studios loan
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Reached by telephone on Tuesday, Brilley said to the best of his knowledge all of the purchasers he listed still hold the bonds because the insurer — the Assured Guaranty Municipal Corporation — is an “AA-rated bond insurer that certainly has the resources to make up any shortages.”

“We still own quite a few of these bonds because of Assured Guaranty,” Brilley said.

The letters surfaced a day before the House Finance Committee’s Tuesday night hearing on MacBeth’s bill to prohibit state payment of the \$75 million, which drew a standing-room-only crowd.

The proposed state budget up for a House vote later this week includes the next \$12.3 million due the investors who purchased the bonds.

But MacBeth who, as the chairwoman of the House Oversight Committee had launched a fresh inquiry into the 38 Studios debacle, demanded a hearing on her bill regardless. Late last week, the House Finance Committee scheduled her bill for debate — but no vote — on Tuesday night.

The crowd was deeply divided, between those saying the state cannot afford to damage its fragile economy, reputation and credit rating by willfully defaulting on a bond debt, and those like Michael Puyana, of the Rhode Island Tea Party, who said of the bonds: “They are not a debt. They are not a financial obligation” because they never went to the voters.

“This was a monumental screwup,” said Puyana, suggesting that the state put the money in an escrow account, to force a serious investigation.

At another point, the spectators cheered and shouted — “here, here” — when Rep. Spencer Dickinson, D-South Kingstown, read from the state Constitution: “The General Assembly shall have no powers, without the express consent of the people, to incur state debts to an amount exceeding [\$50,000] except in time of war, or in case of insurrection or invasion.”

But Laurie White, president of the Greater Providence Chamber of Commerce, was among those urging lawmakers to pay the 38 Studios tab, no matter how distasteful. “The Chamber believes defaulting on our obligation would not only undo progress, but would damage Rhode Island’s reputation as a suitable place for investment of all types,” she said.

“Isn’t corruption another disincentive for companies to come to Rhode Island?” Rep. Patricia Morgan, R-West Warwick, asked rhetorically.

The debate will likely play out again, but among legislators this time, when the budget is put to a House vote on Thursday.



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Long-missing 38 Studios 'investor letters' surface, Wells Fargo pension plan among bond holders

June 10, 2014 03:03 PM

BY KATHERINE GREGG

kgregg@providencejournal.com

PROVIDENCE, R.I. – A half-dozen of the missing 38 Studios "investor letters" have finally turned up, and they provide new information about the insurance companies, hospital and university endowment funds and others who, in 2010, purchased the \$75 million in state-backed bonds that financed ex-ballplayer Curt Schilling's now-bankrupt video-game company.

The original investors included the Attorney's Liability Protection Society, the South Dakota State University Endowment Foundation and the Wells Fargo Corporation Pension Plan.

The letters signed on their behalf, by their portfolio managers, said they were each "sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of taxable bonds, to be able to evaluate the risks and merits of the investment."

By signing the letters, the buyers also affirmed they were "able to bear the economic risks of an investment in the bonds... [and] withstand without material injury a complete loss of investment in the bonds."

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But CommerceRI has been unable, up until now, to produce them.

In fact, as recently as May 27, the agency's spokeswoman Melissa Czerwein said: "The records of the RIEDC do not reflect the receipt of the investor letters as anticipated in connection with the private placement of the bonds in November 2010. The former executive management and former counsel to the RIEDC should have taken measures in November 2010 to ensure receipt of such investor letters to evidence compliance by Placement Agents with the representations in the Bond Placement Agreement."

On Monday, on the eve of a State House hearing on House Oversight chairwoman Karen MacBeth's legislation to prohibit repayment of the 38 Studios "moral obligation bonds," that changed.

Responding to an open-records request from The Journal, Commerce Corporation lawyer Matthew R. Shechtman provided copies of six investor letters that, he said, were produced to EDC "during the discovery phase" of the state's lawsuit against Schilling and other key players in the loan deal.

In the case known as Economic Development Corporation v. Wells Fargo Securities, LLC et al, the state alleges fraud, negligence and breach of financial duty by multiple parties.

With regard to Wells Fargo specifically, the state alleges in its lawsuit, that Wells Fargo did not disclose that it was "earning nearly \$500,000 in hidden commissions from 38 Studios" while working for the state agency that crafted the loan deal: the EDC.

Shechtman's letter did not say who produced the letters, or when. And it is not clear if there are others not yet located.

But his response letter to The Journal's request said: "The enclosed documents were bates labeled by the party that produced them in the pending litigation as WSF_0131920-WFS_0131934."

Some of the names are indecipherable.

But some were clearly signed by key figures at some of the previously identified bondholders, such as the vice president of insurance portfolios for USAA, which provides insurance, banking and investment services to military personnel.

Another was signed by the compliance manager for Transamerica Investment Management, a third by a representative of SVP Investments and a fourth by the executive vice-president of United Heritage Life Insurance Company.

A fifth was signed by Michael C. Brille, as the chief fixed income investment officer, of Sit Investment Associates, on behalf of others who purchased \$5 million worth of the bonds. (Read this letter, below)

He attached a list to his letter that included: The Attorneys Liability Protection Society (\$500,000), Pitt County Memorial Hospital (\$400,000), South Dakota State University Endowment Foundation (\$150,000), George Gund Foundation (\$200,000), Minnesota Lawyers Mutual Insurance Company (\$500,000), Mayo Foundation General Fund (\$500,000), Germantown Mutual Insurance Company (\$250,000), Ohio Indemnity (\$500,000), Cape Fear Valley Health System (\$500,000), Acuity (\$1 million) and the Wells Fargo Corporation Pension Plan (\$500,000).

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“We still own quite a few of these bonds because of Assured Guaranty,” Brilley said.

The letters surfaced a day before the potentially heated public hearing the House Finance Committee is holding on Rep. MacBeth’s stalled bill to prohibit state payment of the \$75 million.

The proposed state budget up for a House vote later this week includes the next \$12.3 million due the investors who purchased the bonds.

Last week, MacBeth who, as the chairwoman of the House Oversight Committee had launched a fresh inquiry into the 38 Studios debacle, demanded a hearing on her bill regardless. Late last week, the House Finance Committee scheduled her bill for debate – but no vote – on Tuesday night.

The debate will likely play out again, but among legislators this time, when the budget is put to a House vote on Thursday, amid persistent questions about how the state got into this mess, with taxpayers on the hook for a potential \$89 million in principal and interest over and above amounts in reserve.

Read Sit Investment Associates’ letter, signed by chief fixed income investment officer Michael C. Brilley:

On Twitter: @kathyprojo



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Fung supports SEC probe into 38 Studios loan

June 10, 2014 11:20 PM

BY PAUL GRIMALDI AND
KATHERINE GREGG

Journal Staff Writers

kgregg@providencejournal.com
pgrimald@providencejournal.com

CRANSTON, R.I. — One of the two Republican candidates in the race for governor said he supports a call for a federal agency investigation into the 38 Studios loan.

Cranston Mayor Allan Fung on Tuesday cited a recent blog about how 38 Studios bonds have traded since they were sold in November 2010 to back the video-game company's move to Rhode Island.

In a May 28 blog post, Michael G. Riley — a Narragansett businessman and one-time GOP congressional candidate — questioned the timing of a May 2012 trade made by an unidentified holder of 38 Studios bonds. Riley asserts the May 23, 2012, sale of \$1 million in bonds occurred the day before the video-game company began laying off employees — a possible indication that the transaction was improper.

Fung said the trade "indicates that the private investor, or investors, who held these bonds obtained insider information about the economic condition of 38 Studios."

"These indications of possible insider trading are just the latest in a long list of reasons to stop all movement toward repaying these bonds with taxpayer money," Fung said.

The video-game company filed for federal bankruptcy protection in June 2012, leaving state taxpayers to wrestle with whether to pay the \$75 million in bonds sold to back the company.

Critics of the bond sale and subsequent loan to 38 Studios have said for at least two years that Rhode Island should refuse to pay the money. Fung and his Republican opponent, businessman Ken Block, are among those who say the state should default on the payments.

Fung stepped up his criticism Tuesday and his push for an SEC inquiry.

"There have been too many allegations of backroom deals and claims that legislators were misinformed, misled, or just plain deceived for anyone to claim that the 38 Studios debacle was a justified state investment that simply went bad."

But the statement put out by his campaign fails to cite that the federal agency began looking into the 38 Studios deal months ago.

In September 2013, a spokeswoman for the R.I. Economic Development Corporation (now known as the R.I. Commerce Corporation) confirmed to The Providence Journal that an SEC inquiry had begun. And, in December 2013, the SEC requested depositions and exhibits related to the state's lawsuit against former ballplayer Curt Schilling, founder of the company, and key players for the state who crafted the loan deal that brought 38 Studios to Rhode Island.

The SEC does not comment on its inquiries until they are complete.

Neither Fung's statement, nor Riley's original blog post, note that the worrisome condition of 38 Studios' finances had broken into the public days before that May 23, 2012, bond trade. The company missed its payroll May 17 after scrambling to come up with a \$1.1-million payment to the state required by its loan agreement.

"Obviously, it is reasonable to infer that this bond holder received non-public information that resulted in a profit of more than \$200,000. We need a full and thorough investigation and I have called for the Securities and Exchange Commission to conduct an investigation of possible insider trading. I also am calling for complete disclosure of the identities of all of the bondholders," Fung told a Journal reporter. "It is clear that there are more than enough questions to justify denying repayment at this time."

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News

Possible Insider Trading in "38 Studios" Bonds

Posted: Jun 06, 2014 6:40 PM EDT

Updated: Jun 06, 2014 10:30 PM EDT

By Mark Curtis, Anchor/Reporter - email

by ABC6 News Chief Political Reporter Mark Curtis

mcurtis@abc6.com

@markcurtisABC6 on Twitter

It now appears someone was playing games with "38 Studios".

And we are not talking about the actual video games.

A little online digging by well-known investment manager Mike Riley discovered something very suspicious.

"I saw this trade and said, 'Wow, that really sticks out like a sore thumb,'" said Mike Riley, a financial and investment investor from Narragansett.

Riley was looking at trading of the "38 Studios" bonds.

On May 23rd 2012, one of the million-dollar investors sold his shares, making a nearly 200 thousand dollar profit.

The very next day, "38 Studios" closed its doors and the employees were let go.

Riley suspects the investor was tipped off.

Reporter question: So if insider trading took place, is that illegal in this type of case?

"Absolutely. Since the early 1990's, municipal bonds have fit under the same SEC guidelines as any other public market," said Riley.

While the "38 Studios" investor's name has not been made public Riley has filed a formal complaint with the S.E.C., the Securities and Exchange Commission.

"I talked with a spokeswoman from the Securities and Exchange Commission in Washington, DC and she could neither confirm, nor deny the existence of a '38 Studios' complaint or investigation."

But at least one candidate for Governor is also calling on the SEC to investigate.

"Being a former prosecutor, it's very concerning, it's very disturbing that someone potentially could have used it based on insider information and then made a profit on it," said Cranston Mayor Allan Fung, (R) Candidate for Rhode Island Governor.

"I think it smells. I think it smells like insider trading," Mike Riley said.

If so, both the investor and person who tipped him off could be sent to prison.

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Ex-Rep. Jon Brien says he was used as 'cover' in jobs bill that fed 38 Studios

June 08, 2014 11:06 PM

BY KATHERINE GREGG

Journal State House Bureau

kgregg@providencejournal.com

PROVIDENCE — No one was more surprised than Jon Brien when Steven Costantino, the powerful chairman of the House Finance Committee, walked up to him on the House floor to ask if he wanted to cosponsor the big jobs bill of 2010.

Brien, then a state representative, was in the political equivalent of Siberia after voting for then-House Majority Leader Gordon D. Fox's opponent in the mid-session election of a new speaker that year.

He was on talk radio often, slamming House Democratic leaders and their allies for alleged political shenanigans.

"I was quite the bomb thrower ... couldn't get a bill passed that said, 'today is Friday,' Brien said during a series of recent interviews.

"All of a sudden, the chairman of finance is coming to me and saying: 'Hey, we know you've been working hard on [economic-development] bills. We want you to sign this. And we're going to put your bill on it because that is a great idea, too."

That is how Brien, a Woonsocket Democrat, says he ended up as one of the three cosponsors of the "Jobs Creation Loan Guaranty" bill that has since become synonymous with the 38 Studios debacle.

It cost him his House seat.

With new details spilling out almost daily now about who-knew-what-when and who stood to gain from the state's failed \$75-million investment in former Red Sox pitcher Curt Schilling's now-bankrupt video-game company, Brien says no one has even tried to subpoena his testimony.

No one.

"I have never been contacted by anybody about anything ... which is funny, because I am one of only three people [listed as sponsors] on the loan-guaranty bill."

What would he say if he were subpoenaed? Not much, he says. And that's his point.

He says there is no question in his mind that he was used for "cover," to lend legitimacy to the bill, without anyone telling him that \$75 million was already earmarked for 38 Studios.

It cost him anyway.

He lost his House seat in a 2012 primary fight with a Woonsocket firefighter whose union backers spent tens of thousands of dollars on mailers that asked: "Where was state Rep. Brien ... when Curt Schilling convinced Governor Carcieri to loan his video game company \$75 million and leave taxpayers on the hook if it failed?"

"Answer: Rep. Brien was sponsoring the law that made it all possible." (Brien says one attack ad made it look as if he personally handed an oversize \$75-million check to Schilling.)

Brien isn't saying whether he will run again, to try to regain the seat he lost to incumbent Stephen M. Casey, also a Democrat. He says there is a lot for him to consider, including how much time that would leave for him to spend with his daughters, 8 and 10.

But he does not rule it out and says he very much wants to tell the story of how "the small business community, taxpayers, myself ... all became road kill for what appears, to me, to be a small collection of guys in power who were looking to cash in on a multimillion-dollar deal."

Although no one involved in the civil or criminal probes has contacted Brien, the House Oversight Committee has asked him to testify voluntarily. Among those asked to do so, he is the only one so far to say: Yes, please.

"Every day more facts about 38 Studios come to light, and the public deserves to know the truth about what really happened," he says.

And what is his story?

Brien says the hook for him was the inclusion in the "jobs-creation loan guaranty" bill of an idea he had been pitching since 2008.

He wanted to create a "Procurement Assistance Program" within the state's Economic Development Corporation to help Rhode Island companies win federal government contracts.

Like every state, Rhode Island already had a procurement-training assistance center, which helps companies register to become eligible for government projects. His proposal would have added a state-funded layer to that program.

His notion: The EDC would hire a firm to match local companies with government contract opportunities, and guide them along the way, at a potential cost to the state of \$250,000.

He said the price tag seemed to scare some lawmakers, and EDC officials viewed the bill as a negative comment on their agency's own technical-assistance program. "But that was a good bill," he said, "a proven economic-development model in other states ... that showed if you cultivate the businesses that you have within your state and help them to bid on, to win and comply with federal contracts, that the ratio of state investment to federal contracting dollars coming into your state is enormous."

A version of his proposal was attached first to a midyear budget repair bill that cleared the House but ran aground in the Senate.

It resurfaced on May 19, 2010, as part of the Jobs-Creation Loan Guaranty bill that Costantino asked him to cosponsor, to allow the state to issue up to \$125 million in guarantees on loans for knowledge-based or technology companies that promised new jobs.

The bill went straight to the House floor six days later without a hearing; Brien's proposal was added by Costantino as a "floor amendment."

State leaders called the loan guarantees a critical component of Rhode Island's efforts to move away from old-line manufacturing industries toward a more creative economy.

"There's nothing Rhode Island needs more than jobs and healthy businesses that will keep creating more of them. In order to do that, we have to put our efforts into the fields that are on the leading edge in the Information Age: technology and knowledge," Costantino said at the time.

Costantino, who is now the Chafee administration's Health and Human Services secretary, has not responded to inquiries about how much — if anything — he knew about the 38 Studios loan deal taking shape behind the scenes when he pitched the \$125-million loan-guaranty bill to House colleagues in 2010.

Nor will he say if he has been subpoenaed.

The EDC — now known as CommerceRI — did not respond to questions this week about Brien's "Procurement Assistance Program" and whether it was ever created.

At least one lawmaker has a different memory of how Brien ended up cosponsoring the 2010 loan guaranty legislation. Another co-sponsor, Rep. Helio Melo, D-East Providence, recalled Brien walking up to where he and Costantino were sitting in the House Finance Committee hearing room and asking to be a cosponsor so that he could claim credit for the part of the bill that he viewed as his.

"No one gets their arm twisted to sign a bill," Melo said. "Jon Brien wanted to be a part of that bill ... He wanted to be part of something with the leadership. That's why he asked to do it."

But Brien says of Melo's recollection: "That is *not* accurate."

Brien acknowledges that a one-time colleague at GTECH, Chris Coyne, was working at one of the companies he expected to bid on the new procurement assistance contract, LSI/Shipley. He said the company was providing similar support services in other states, including Utah and Oklahoma, and openly testified in favor of his bill at hearings here.

As for the \$125-million loan-guaranty program: \$75 million was earmarked for the doomed 38 Studios venture; only three other companies got state-backed loans totaling \$6.5 million before the legislature torpedoed the loan program in 2013. They included: NuLabel Technologies, \$1.5 million; The Corporate Marketplace, \$4 million; and eNow, \$1 million.

As of April 30, eNow had a \$419,674 loan balance; The Corporate Marketplace, \$3.25 million.

"I think that, ultimately, the reason why they chose me was because I was like the perfect foil," Brien said of his role in this chapter in Rhode Island history.

"They could say, 'Look, this isn't an insider deal. This is leadership, [and] guys from Siberia. We're even taking up his good piece of [economic development] legislation that further helps small business.'"

"Ultimately, I think it was just a smoke screen."

On Twitter: @kathyprojo

House speaker, oversight chairwoman at odds over lack of hearing on 38 Studios bill

June 05, 2014 01:00 AM

BY JOURNAL STATE HOUSE
BUREAU

Journal State House Bureau

PROVIDENCE — For a short time, they appeared as allies in an attempt to get to the bottom of the 38 Studios debacle: new House Speaker Nicholas Mattiello and new House Oversight Committee Chairwoman Karen MacBeth.

But then Mattiello announced he would not authorize subpoenas to the key players in the failed \$75-million loan deal. And on Wednesday, MacBeth sent Mattiello a letter formally objecting to the “failure of the House Finance Committee” to hold a hearing on her bill to prohibit taxpayer payment of the 38 Studios bonds.

The legislation she and her co-sponsors introduced on Jan. 30 essentially says “the state shall not make payment on the moral obligation bonds related to 38 Studios.”

Mattiello has publicly stated his belief that the state needs to pay the investors who purchased the \$75 million in state-backed bonds that financed ex-Red Sox player Curt Schilling’s now-bankrupt video-game company, or risk taking an even bigger financial beating in the financial markets.

But in a letter to Mattiello dated Wednesday, MacBeth said the House rules guaranteed a hearing she never got on her bill.

She said she made the request on Feb. 12, but in violation of House rules, the bill “was not given a hearing within the required 30 days of submission nor was it given consideration by the April [committee-action] deadline.”

“I am objecting to the failure of the House Finance Committee to adhere to the [House rules] ... and hereby request that you order the immediate discharge of said bill,” she wrote.

In this case, discharge effectively means allowing the stalled bill to come to a vote.

Her letter came to light a day before the finance committee is expected to vote on an as yet unseen budget bill that includes the next \$12.3-million payment to the bondholders for the failed deal.

MacBeth’s co-sponsors include Democrats J. Patrick O’Neill, James McLaughlin, Spencer Dickinson and Republican Michael Chippendale.

In response, Mattiello spokesman Larry Berman contended that the time limits cited by MacBeth do not apply to bills in the finance committee. He cited “House Rule 12 (f).”

“Bills in House Finance Committee have never been subject to the 30-day [hearing] requirement,” he said. “The committee spends the first several months of each session ... reviewing the budgets of every state department and agency. Then the committee begins holding hearings on all of the bills that have been requested by the sponsors, and that process is on-going.

“On May 29, Speaker Mattiello informed Chairwoman MacBeth of this rule and told her that the bill will be getting a hearing.”

As to when, he said that will be decided sometime after Thursday’s anticipated House Finance Committee vote on the proposed budget.

“She just wants to rehash the same issue over and over again,” said Berman, noting the looming 38 Studios payment was discussed at House finance hearings on March 19 and May 15 and by the Oversight Committee on May 15.

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MacBeth wants floor vote on 38 Studios bond bill

Posted: Jun 04, 2014 7:21 PM EDT

Updated: Jun 04, 2014 7:29 PM EDT

PROVIDENCE, R.I. (AP) - The Rhode Island House Oversight chairwoman is challenging Speaker Nicholas Mattiello to bring her bill prohibiting repayment of the 38 Studios bonds to a floor vote.

Chairwoman Karen MacBeth says in a Wednesday letter her bill wasn't given a hearing within 30 days of submission or considered by the April deadline. She claims that violates House rules.

A Mattiello spokesman says those rules don't apply to the Finance Committee.

MacBeth is among the most vocal critics of repaying the \$89 million Rhode Island is responsible for in connection with Curt Schilling's bankrupt video game company.

Mattiello initially was undecided about the next bond payment but now says the state should pay. MacBeth says her opposition has gotten stronger.

The two have also clashed over Oversight subpoenas related to 38 Studios.

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Lawmaker pushes for vote on 38 Studios payback

Posted: Jun 05, 2014 6:38 AM EDT

Updated: Jun 05, 2014 6:42 AM EDT

By Susie Steimle - email

PROVIDENCE - Controversy continues over paying back bonds owed on Curt Schilling's failed video game company 38 Studios. Lawmakers are at odds over whether the state should vote to prohibit paying this debt.

The debate over whether the state owes money on the failed deal with 38 studios will no doubt continue in Rhode Island for quite some time.

But now lawmakers are at odds over house policy and process that could allow more of them to weigh in.

House Oversight Chairwoman Karen MacBeth sponsored a bill that would prohibit the state of Rhode Island from repaying debt owed on 38 Studios bonds.

MacBeth said House Speaker Nicholas Mattiello, who supports repaying the bonds, is preventing her bill from coming to the floor for a vote.

MacBeth says Mattiello isn't adhering to house rules. She is demanding that Mattiello bring her bill to the floor for a vote.

Mattiello worries not paying back the \$89 million owed to investors could result in the state's future borrowings to "junk bond status".

Mattiello insists he is following protocol and that Macbeth's bill will get a hearing.

Mattiello and MacBeth have been at odds over 38 Studios for a while now. She wants to bring lawmakers closely involved in the deal before a statehouse panel.

The problem is she needs Mattiello's approval for that to happen but he doesn't plan on giving it.



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Former R.I. speaker Fox loses bid to quash subpoena in 38 Studios lawsuit

June 03, 2014 11:27 PM

BY PAUL GRIMALDI

Journal Staff Writer

pgrimald@providencejournal.com

PROVIDENCE, R.I. — A Superior Court judge on Tuesday denied a request by former Rhode Island House speaker Gordon D. Fox to quash a subpoena served on him in connection with the 38 Studios lawsuit.

Judge Michael A. Silverstein's decision Tuesday means Fox will have to give a deposition in the case. First Southwest Co., one of 14 defendants in the case, wants to question the legislator to learn what role he may have played in 38 Studios' decision to move to Providence in 2011.

The R.I. Economic Development Corporation sued individuals, law firms and financial institutions in Superior Court in November 2012, a few months after Curt Schilling's video-game company filed for bankruptcy. Fox is not a defendant in the case.

The agency — now known as the R.I. Commerce Corporation — seeks money to help cover the costs of the \$75-million bond sale that raised money for 38 Studios' operation in Rhode Island.

The company's closure left the General Assembly with the task of deciding whether to repay the bonds and the \$37.6 million in interest payments that go along with them over 10 years — for a total of \$112.6 million.

Excluding the amounts covered by reserve funds, state taxpayers owe \$89.2 million on the state-backed loan.

Fox's lawyer, Albin Moser, failed to persuade the judge to quash one of two subpoenas issued to him by defendants in the case. Moser cited a March raid of Fox's State House office and his Providence home by state and federal investigators as the reasoning for the request.

Fox resigned his powerful leadership post shortly after the raids. Authorities have yet to charge Fox, or anyone else, in connection with the raids.

"He is clearly a target," Moser said, of a potential criminal investigation and may inadvertently disclose information in a deposition that could be used against him in that inquiry.

Moser said disclosing any information in the 38 Studios case would violate Fox's Fifth Amendment rights.

Adam M. Ramos, a lawyer for First Southwest, insisted in court that answers Fox may provide would illustrate that "there were other forces at play that led to the passage of the Jobs [Creation] Guarantee bill."

It was the \$125-million Job Creation Guaranty Program that the EDC tapped to provide Schilling's company with money to move Providence.

While Silverstein's ruling means Fox will have to sit for questioning by First Southwest's lawyers, the legislator may assert his Fifth Amendment rights and decline to answer them.

Silverstein did not rule Tuesday on a second subpoena served on Fox in the 38 Studios case, this one by Wells Fargo Securities LLC for documents related to the \$75-million loan guarantee for Schilling's company.

The judge said he would rule next week on Fox's request to quash the Wells Fargo subpoena.

Outside of court, Moser said, "We certainly respect the judge's ruling."

A date for the Fox deposition has not been set.

On Twitter: @PaulEGrimaldi

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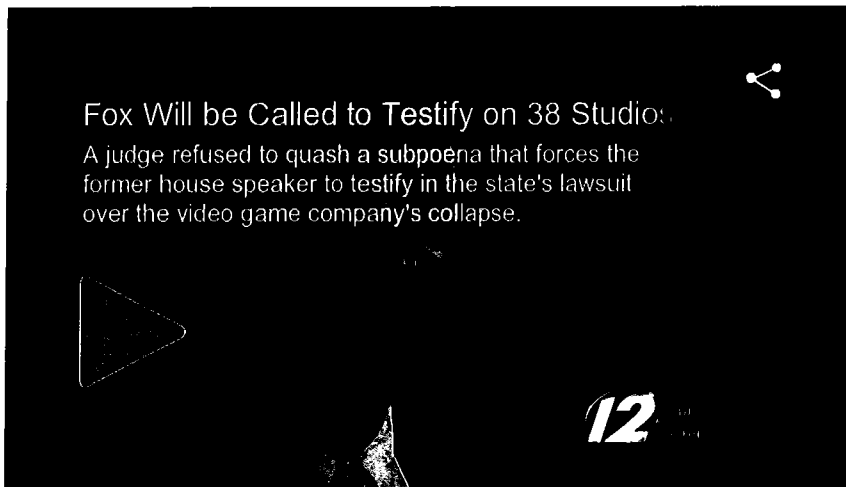
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Judge denies Fox's request to quash subpoena in 38 Studios case

By Associated Press with Angie Angers; Reporting by Sean Daly

Published: June 3, 2014, 10:19 am | Updated: June 3, 2014, 7:14 pm



PROVIDENCE, R.I. (WPRI/AP) — The Rhode Island judge hearing the 38 Studios lawsuit has declined to quash a subpoena for testimony from ex-House Speaker Gordon Fox.

Defendant First Southwest had subpoenaed Fox for deposition testimony. A court spokesman said Judge Michael Silverstein ruled Tuesday.

Another defendant, Wells Fargo, has also subpoenaed Fox for documents related to ex-Red Sox pitcher Curt Schilling's now-bankrupt video game company.

Fox's attorney Albin Moser has cited raids on the ex-speaker's home and State House office as part of a criminal investigation in his bid to quash both subpoenas. He has also cited Fox's Fifth Amendment protection against self-incrimination.

"To make Mr. Fox sit and assert his Fifth Amendment privilege on a question by question basis would serve no purpose and would not move this case forward," said Moser on Tuesday.

A lawyer for First Southwest argued that Fox's Fifth Amendment privilege may not apply to each question.

"The reality is that you can't possibly know and fulfill your obligations as a witness for asserting Fifth Amendment privilege without being faced with the questions for which you are assert that fifth amendment privilege," said lawyer Adam Ramos.

Fox's lawyer acknowledged that he is clearly a target in a possible criminal investigation and therefore he may say something in the deposition that could later be used against him.

The state's economic development agency is suing over the collapse of 38 Studios. Its board approved a \$75 million loan guarantee for the company in 2010.

Gov. Lincoln Chafee, who opposed the 38 Studios loan as a candidate in 2010, said he believes the lawsuit will answer a lot of questions about the failed deal. He said he is still surprised by the amount of support Schilling's company received from business community.

"It was group think, there was so much group think," Chafee said.



Judge declines to quash Fox subpoena for testimony

Posted: Jun 03, 2014 12:07 PM EDT
Updated: Jun 03, 2014 12:23 PM EDT

PROVIDENCE, R.I. (AP) - The Rhode Island judge hearing the 38 Studios lawsuit has declined to quash a subpoena for testimony from ex-House Speaker Gordon Fox.

Defendant First Southwest had subpoenaed Fox for deposition testimony. A court spokesman said Judge Michael Silverstein ruled Tuesday.

Another defendant, Wells Fargo, has also subpoenaed Fox for documents related to ex-Red Sox pitcher Curt Schilling's now-bankrupt video game company.

Fox attorney Albin Moser has cited raids on the ex-speaker's home and Statehouse office as part of a criminal investigation in his bid to quash both subpoenas. He has also cited Fox's Fifth Amendment protection against self-incrimination. A message was left for Moser.

The state's economic development agency is suing over the collapse of 38 Studios. Its board approved a \$75 million loan guarantee for the company in 2010.

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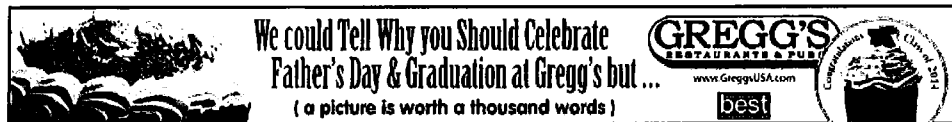


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I-Team: RI lawmakers to take closer look at 38 Studios deal

Posted: Jun 02, 2014 6:31 PM EDT
Updated: Jun 02, 2014 6:32 PM EDT

By Parker Gavigan - email

CRANSTON, R.I. - The NBC 10 I-Team revealed an internal 38 Studios document that shows the names of former House Speakers William Murphy and Gordon Fox, and Providence attorney Michael Corso, who stood to make millions on the deal through lucrative contracts.

The October 2009 document calls into question when state power brokers became acquainted with Curt Schilling's now-failed video company.

"I think that's key there, the date of October 2009, and you have those key players that were there, certainly now with former speaker Murphy signing some type of memorandum of confidentiality or memorandum of agreement. That sets the timetable much different," said state Rep. Karen MacBeth of Cumberland, chairperson of the House Oversight Committee, currently investigating the 38 Studios deal.

The document obtained by the I-Team shows non-disclosure agreements between people and companies involved with 38 Studios.

"I'm not commenting on anything on the advice of counsel and that's all I can say right now," said former House Speaker Fox when approached last week.

"That's not my document. I don't know whose document that is," Murphy said. When asked to explain why his name appeared on the same day as Corso's and Fox's, Murphy told NBC 10 to, "Ask 38 Studios."

Schilling's company went bankrupt in 2012.

The former Boston Red Sox pitcher and 13 defendants are now being sued by Rhode Island's Economic Development Corp. At stake, \$75 million in taxpayer-backed bonds used to help finance the company.

Publicly, the discussions to move 38 Studios from Massachusetts to Rhode Island are said to have started when Gov. Don Carcieri attended a fundraiser at Schilling's home in March 2010. However, the documents obtained by the NBC 10 I-Team show state leaders connecting with 38 Studios at least five months before the fundraiser.

"And so far, that's the earliest document that's shown up, Oct. 8, 2009. That tells us this has been in the works for a while and what's more peculiar two of the names on it -- Fox and Corso," said state Rep. Michael Chippendale of Coventry, during a recent taping of "10 News Conference."

MacBeth said the 2009 date has more meaning in hindsight.

"What that tells me is that when this came to the floor for a vote and I asked the question, 'Was there an entity being considered?' and I was told 'No', those players that were on the floor at that point knew and, again, we were lied to on that," MacBeth said.

House Speaker Nicholas Mattiello recently said he would not support subpoena power to the House Oversight Committee as it investigates what, if anything, went wrong in the 38 Studios deal.

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I-Team: Names of top RI politicians, lawyer on 38 Studios documents

Posted: May 30, 2014 5:34 PM EDT

Updated: May 30, 2014 6:00 PM EDT

By Parker Gavigan - email

PROVIDENCE - The NBC 10 I-Team has uncovered documents that call into question when top Rhode Island lawmakers first became involved with the now-bankrupt 38 Studios.

This new information includes the names of former House Speaker William Murphy, Gordon Fox and Providence attorney Michael Corso. The details change the timeline given about former Boston Red Sox pitcher Curt Schilling's gaming company and its move from Massachusetts.

Murphy admits to the I-Team that he visited 38 Studios' Massachusetts office before any other Rhode Island leader publicly discussed 38 Studios.

Yet, documents obtained by the NBC 10 I-Team seem to show Murphy was not the only state politician and power player meeting with 38 Studios before its move to Rhode Island.

The I-Team has obtained an internal file of what appears to be a log of non-disclosure agreements between people and companies involved with 38 Studios. On Oct. 8, 2009, Murphy's name is seen next to a notation of a confidentiality agreement. When asked Friday if he signed a confidentiality agreement, Murphy said, "I believe I did."

It's not unusual for a tech company to demand confidentiality agreements. The company's work is secret, in a highly competitive market. However, two other names also appear on that 38 Studios log on the same day. Providence attorney Michael Corso, a broker who deals in historic and film tax credits is on the list and, his friend, former House Speaker Gordon Fox is listed too.

"I did not go there with Michael Corso and Gordon Fox," Murphy said.

"I'm not commenting on anything on the advice of counsel and that's all I can say right now," Fox told NBC 10 on Friday. When asked if he went to 38 Studios in Massachusetts with Murphy and Corso, Fox said "no comment."

"That's not my document. I don't know whose document that is," Murphy said. The I-Team asked Murphy to explain how all three names are on a list of non-disclosure agreements. "It is what it is. Ask 38 Studios," Murphy said.

The video game company went bankrupt in June 2012. Schilling and 13 defendants are now being sued by Rhode Island's Economic Development Corp. to recoup some of the \$75 million loan guaranty that was lost when the company went under.

Publicly the negotiations to move 38 Studios from Maynard, Massachusetts, to Providence are said to have started when Gov. Don Carcieri attended a fundraiser at Schilling's home in March 2010. There has never been a mention of Murphy, Fox and Corso connecting with 38 Studios five months earlier.

Murphy said he was at 38 Studios to help connect Schilling with Murphy's then counterpart in Massachusetts, House Speaker Robert DeLeo.

"I was asked to arrange a meeting with 38 Studios, with the speaker in Massachusetts and I did that and that's the end of my involvement, thank you," Murphy said.

There was nothing illegal about Rhode Island politicians and Corso meeting with 38 Studios. However, the document calls into question the time frame the public has been told about just when these men connected with the now-defunct gaming company.

The NBC 10 I-Team has visited Corso's Providence office and attempted to reach him by phone for comment.

Licht reveals meetings with Corso about 38 Studios

Ted Nesi

Updated: Thursday, May 8, 2014, 12:14 am

Published: Wednesday, May 7, 2014, 6:07 pm



Richard Licht, a top aide to Gov. Lincoln Chafee, is director of the R.I. Department of Administration.

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Leaked docs detail 38 Studios' contracts with Corso
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PROVIDENCE, R.I. (WPRI) — A top aide to Gov. Lincoln Chafee confirmed Wednesday he met twice with Michael Corso, the controversial local attorney closely associated with the 38 Studios deal, in 2011 and 2012 to discuss the faltering company's efforts to get tax credits from the state.

Richard Licht, director of the R.I. Department of Administration, told WPRI.com he and Corso met in his office in December 2011 and again somewhere else in the spring of 2012. Licht said the discussion at both meetings revolved around 38 Studios' need to obtain tax credits.

Notably, the December 2011 meeting took place four months before a pivotal April 2012 meeting at 38 Studios where Chafee was asked by its executives to sign documents allowing the cash-strapped company to get tax credits and bridge financing.

Former House Speaker Gordon Fox, who attended the April meeting with Chafee, told WPRI.com two months after it took place that he and the governor had been blindsided by 38 Studios' request for assistance there (<http://blogs.wpri.com/2012/06/29/fox-didnt-know-schilling-would-get-75m-key-meeting-in-april/>) and hadn't even realized the company was in financial trouble.

On Wednesday, Licht acknowledged he never informed Chafee about the meeting the previous December with Corso and other 38 Studios insiders. "It was a routine meeting I would have done with anybody," Licht said, adding: "They wanted to understand how it worked. I don't even remember a lot about the meeting."

Patrick Rogers, who was still Chafee's chief of staff in December 2011, said Wednesday he was not informed about Licht hosting the 38 Studios meeting. "This is the first I've heard of that meeting to my knowledge," Rogers told WPRI.com. "I don't recall hearing about that until this moment."

According to Licht, the December meeting came about when Corso called him to request information about how 38 Studios could tap into Rhode Island's program of tax credits for film and TV productions. He said he told Corso he'd set up a meeting and get David Sullivan, Rhode Island's tax administrator, to join them.

"They were trying to see if the film and tax credits would apply to gaming," Licht said. "That's really what they wanted, to understand it. ... That was purely informational."

Sullivan confirmed that he attended the December 2011 meeting in Licht's office, and said the others he recalled being in attendance there included Licht; Corso; 38 Studios founder Curt Schilling; and Tom Zaccagnino, the lead member of 38 Studios' board of directors, who was closely involved with its financial affairs.

Sullivan said it was already clear at the meeting that 38 Studios planned to apply for film and TV tax credits. "I think that all they were asking basically was how do you go about applying for film tax credits and what the process is, what is eligible for film tax credits, what's in it – very general," he told WPRI.com.

Licht said he met with Corso about 38 Studios for a second time the following spring, when the company was in financial turmoil, though he couldn't recall the location.

"I don't know how the meeting came about – I can't remember whether it was a political fundraiser or if he asked to meet with me or someone else would have asked me," Licht told WPRI.com. "I saw him and he told me how crucial it was to save 38 Studios, that the tax credits be given. ... I think they were talking to anyone they could talk to and press how crucial this was to save the company."

"The second meeting, which was several months later, when they were more in – there was more of a crisis situation that they needed these credits, and I can't remember what they asked me or didn't ask me," he said.

Asked how he responded, Licht replied: "I just sat and listened."

While the development of a video game was ultimately found to be eligible for film and TV tax credits, state officials found 38 Studios itself was not eligible to get them because it wasn't incorporated in Rhode Island. That decision was one of the factors that helped trigger the company's financial collapse in May 2012.

"I had not been involved with 38 Studios at all before or since," Licht said of the December 2011 meeting. "I didn't know what their contracts or understandings or agreements were. They asked for information, and I was happy to give it to them."

Licht said the R.I. Economic Development Corporation always had primary responsibility for 38 Studios within the Chafee administration. "I think I was just contacted because people always contact me when they try to get messages to the administration," he said. "It's not unusual for me to be contacted for something I don't have direct responsibility about."

Sullivan sounded a similar note. "Being that Richard probably knows every living person in Rhode Island, a lot of times they'll call Richard and say, 'Hey, I have this issue,' and Richard will call a meeting or refer them to me," he said.

Sullivan also said it's "not out of the norm for us to do these types of things. I mean, obviously if a business or a corporation in this state has these questions, we are always more than willing to explain it to them. In [the Division of] Taxation, we'd rather explain the rules up front."

Licht said the two meetings are the only times he's met with Corso since becoming director of administration in January 2011, when Chafee entered office. Licht is a former Democratic state senator and currently a leading candidate for a judgeship.

Rogers, whose departure as Chafee's chief of staff was announced in December 2011, said he was never informed during his time in the governor's office that 38 Studios might seek to receive state tax credits.

But Rogers did say he was approached by David Gilden, the EDC's former general counsel, in the fall of 2011 to indicate that 38 Studios might request one or more waivers from the Chafee administration that would allow the company to avoid making some of the payments called for under its original agreement with the state.

"I do recall telling Gilden that given the governor's skepticism about the transaction that he would be – while I would faithfully report the request, to the extent he was taking my temperature I indicated the governor would probably be loathe to waive any covenants or be lenient in any way," Rogers said.

Rogers said he informed Chafee about the message from Gilden, and said they were both "relieved" when Gilden soon said the company wouldn't need the waivers after all. "I think we saw that as good news," he said.

Rogers also said the idea was presented to him as a sign of 38 Studios' success, not that the company had financial troubles. "My recollection was that the company was doing well," he said. "This was an indication of the company growing quickly, maybe more quickly than their projections, and that they needed some additional capital."

As for Corso, Rogers said he doesn't recall ever meeting with him about 38 Studios.

Ted Nesi (tnesi@wpri.com (<mailto:tnesi@wpri.com>)) covers politics and the economy for WPRI.com and writes the *Nesi's Notes* blog (<http://blogs.wpri.com/author/tednesi/>). Follow him on Twitter: [@tednesi](https://twitter.com/tednesi) ([http://twitter.com/tednesi](https://twitter.com/tednesi))

Tim White and Dan McGowan contributed to this report.

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38 Studios Contractor Ordered to Install Equipment in Fox's Crony's Bar

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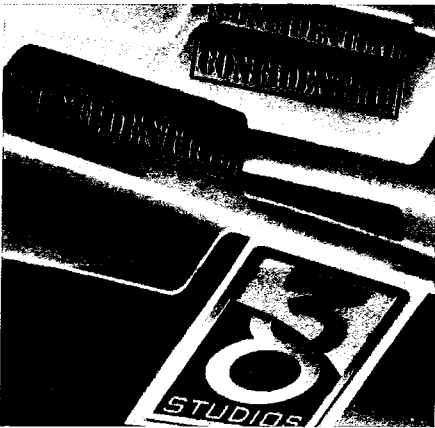


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Wednesday, May 07, 2014
Kate Nagle, GoLocal Contributor

A former subcontractor for 38 Studios is alleging that his firm was ordered to work on former Speaker of the House Gordon Fox's business colleague Michael Corso's bar as part of their contract - and has produced what he says is documentation to prove it.

Project manager Michael Rossi with SyNet, Inc. has revealed a budget for work which he says shows at \$25,000 line item for work to be done at Corso's Tazza Cafe in 2011 -- under a job order for the failed 38 Studios.



Warwick-based SyNet bills itself as "the premier design-build low voltage contractor of structured cabling, access control, surveillance and audio visual systems in the Northeast."

See SyNet 38 Studios Budget HERE

Representative Mike Chippendale, Senior Deputy Minority Leader and Secretary of House Oversight who is leading the investigation into 38 Studios along with Rep. Karen MacBeth, told GoLocal, "[Rossi] has hit a number of things on the head, things he wouldn't have been able to have known otherwise. He was able to validate some things, and the State Police has said they have determined the [budget] document has credibility."

"We're moving in the right direction," said Chipendale, who along with Macbeth have both been the target of mail threats in the past month. "We've kicked the hornets' nest."

38 Studios Work

Rossi said when he was working at SyNet, he was aware the 38 Studios work could be a possibility. "When my boss called me to say we got the project, that I was going to oversee the [network infrastructure] work, I thought, "Wow...38 Studios. This is big."

"As soon as I started working, they told me to order cable right away," continued Rossi. "I didn't have a permit. Arguments went back and forth. I walk out, I say I don't have a budget, I'm not doing it. I get berated by my boss to get back on the job. Next day, I get the budget, I'm back on the site -- and there are walls up already, with no permits pulled."

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PERMIT		\$14,111.00	
TOTAL		\$50,611.00	

"So I get sent the quote, and inside the quote's the budget. My job is to take the quote, and revise the budget. My job is to tweak it so we can make money," said Rossi. "First thing I notice is there's a 27% gross margin. Then I see the \$25K for Tazza. I've got \$140,000 of cable delivered that's supposed to go on the second floor (of 38 Studios), and instead I'm getting back time cards that are showing Tazza."

"I'm changing everything on job -- these were all no bids. Nappa construction picked Rossi Electric. I realize the job can't be done the way it's designed," said Rossi. "The money was getting kicked back in the form of goods and services to Corso and Fox. I said I'm not doing this. I knew I was getting set up for jail with this. I went out on sick leave, I was done."

Joyce Strause with SyNet told GoLocal, "SyNet has fully and wholly cooperated with the Rhode Island Attorney General Patrick Young regarding the investigation

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A portion of the SyNet 38 Studios budget document with a line item surrounding 38 Studios and has no further comment at this time.

Looking Ahead

Rossi said that he went to the State Police with the information at the time it happened. "Nothing was done with it," said Rossi. "They're setting up to defend themselves with information they had 2-3 years ago."

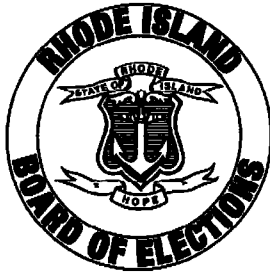
Rhode Island State Police Colonel Steven O'Donnell told GoLocal on Wednesday that there has been an "ongoing investigation by the state police into Michael Corso." When asked for further details, O'Donnell said, "With the investigation, I can't comment further on the matter at this time."

Chippendale said he was unsure if Rossi be testifying before the House Oversight Committee. "We're not a criminal investigatory body -- if it aids us with the procedural, then we will use it."

"The State Police did say [today] that this information did come to them years ago," said Chippendale. "It's a shame to think that something like this had to spur the process, but at the end of the day, I'm happy they're looking into it."



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FBI and IRS Agents Are Focused on Campaign Financing Reports

The State of Rhode Island has regulatory and enforcement authority over the use of campaign finance funds.

While the IRS could be looking at improper use of campaign funds - it is not the core focus of the federal investigation.

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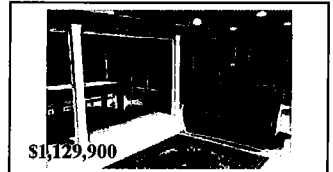
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Leaked docs detail 38 Studios' contracts with Corso

Dan McGowan and Tim White

Updated: Thursday, May 8, 2014, 12:01 am

Published: Wednesday, May 7, 2014, 5:31 pm

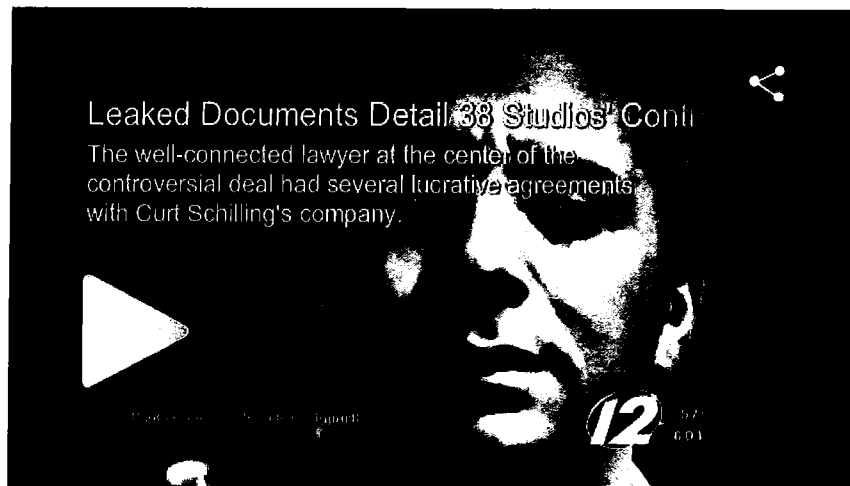
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Ex-agency head: I won't testify before lawmakers (<http://wpri.com/2014/05/06/ex-agency-head-i-wont-testify-before-lawmakers/>)



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Corso is an associate of former House Speaker Gordon Fox and has long been tied to the 38 Studios debacle – and the game company. Records obtained by Target 12 show Corso was subpoenaed by an attorney from the financial firm First Southwest as part of the state’s ongoing lawsuit involving the company. He is scheduled to be deposed May 22.

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Corso's tax credit company also reached a deal with 38 Studios in January 2012, less than five months before the company filed for bankruptcy, leaving Rhode Island taxpayers on the hook for nearly \$90 million.

Target 12 has repeatedly asked Corso for comment in the years since the collapse of 38 Studios; he has never returned a call. His lawyer did not return a message left for him Wednesday.

Dan McGowan (dmcgowan@wpri.com (<mailto:dmcgowan@wpri.com>)) covers politics and the city of Providence for WPRI.com. Follow him on Twitter: [@danmcgowan](https://twitter.com/danmcgowan) (<https://twitter.com/danmcgowan>)

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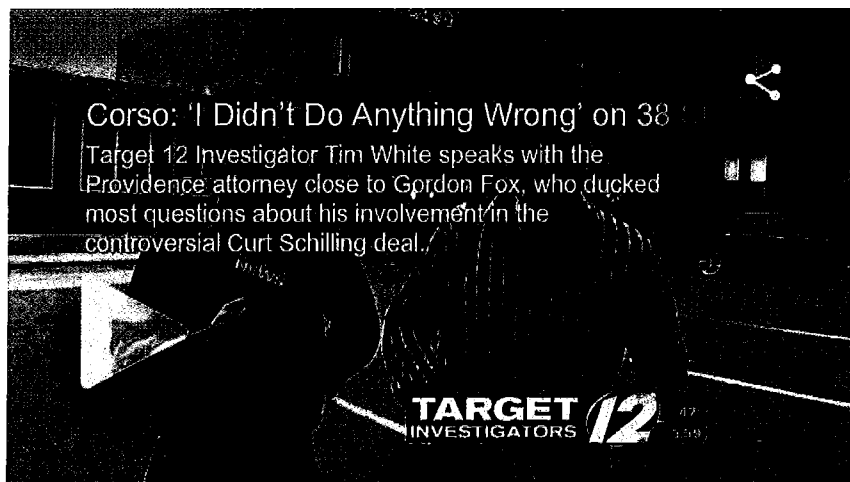
Ted Nesi contributed to this report.

Corso: 'I didn't do anything wrong' on 38 Studios

By Tim White

Updated: Wednesday, May 28, 2014, 6:33 pm

Published: Wednesday, May 28, 2014, 3:06 pm



PROVIDENCE, R.I. (WPRI) – Michael Corso, the Providence attorney close to former House Speaker Gordon Fox who helped put together the 38 Studios deal, said Tuesday he “didn’t do anything wrong” in helping the company get a \$75-million taxpayer-backed loan.

Corso has mostly avoided the media since 38 Studios collapsed, and has ignored multiple phone calls and requests for comment from WPRI 12 over the years. Michael Lepizzera, his attorney, has also said little to reporters about the situation.

Target 12 finally tracked Corso down Tuesday night as he left his Providence law office. He initially said he had “no comment,” telling Target 12: “You’ve got my [legal] counsel’s phone number. I can’t talk right now.”

But when asked whether he felt he owed the people of Rhode Island an apology, Corso said: “No, I didn’t do anything wrong.” Then he closed the door.

Corso, a 43-year-old Cranston resident, has been back in the headlines in recent weeks after Target 12 reported he had at least four lucrative contracts with 38 Studios (<http://wpri.com/2014/05/07/leaked-docs-detail-38-studios-contracts-with-corso/>) that stood to earn him millions, though he never registered to lobby (<http://wpri.com/2014/05/05/target-12-investigation-triggers-ri-probe-of-38-studios-lobbying/>) on behalf of the company. Secretary of State Ralph Mollis is now examining whether Corso – or anyone else – should have registered with his office.

Corso isn’t the only central figure in the 38 Studios drama who has clammed up.

Fox – who resigned as speaker in March after law enforcement raided his home and office but is still a state representative – refused to answer questions about his involvement in the deal when Target 12 caught up with him at the State House.

“I’m not commenting about anything with 38 Studios, and anything that is even next to the investigation, at this point,” Fox said.

A spokesman for U.S. Attorney Peter Neronha’s office reiterated Wednesday that there is no active federal investigation into 38 Studios, though Rhode Island State Police detectives are still looking into an undisclosed aspect of the transaction.

But Fox pushed back when reminded the raids were not related to 38 Studios. “I don’t know the scope and the wherewithal of the investigation,” he told Target 12. “I’ll defer to my attorney.”

Asked what people would think of his refusal to discuss the issue, Fox said: “People already think the worst of me,” adding, “I have the right to be forgotten.”

Fox previously confirmed that Corso hosted a key meeting in March 2010 (<http://blogs.wpri.com/2012/06/29/fox-didnt-know-schilling-would-get-75m-key-meeting-in-april/>) that the then-speaker attended along with Curt Schilling, former R.I. Economic Development Corporation executive director Keith Stokes and others to discuss bringing 38 Studios to Rhode Island. Corso remained involved in the company's finances through its final months in 2012.

Both Corso and Fox have been issued subpoenas by defendants in the Chafee administration's civil lawsuit against the architects of the 38 Studios deal. Neither man has been identified as the target of any law enforcement investigation.

Separately on Wednesday, R.I. Superior Court Judge Michael Silverstein issued a decision in the 38 Studios lawsuit ordering Robert Stolzman, the former EDC general counsel who is one of the defendants, to disclose the amount of coverage he has available under his professional insurance policy as requested by the state's lawyers.

Tim White (twhite@wpri.com (<mailto:twhite@wpri.com>)) is the Target 12 (http://www.wpri.com/subindex/target_12) investigative reporter for WPRI 12 and Fox Providence. Follow him on Twitter: [@white_tim](http://twitter.com/#!/white_tim) (http://twitter.com/#!/white_tim)

Ted Nesi contributed to this report.

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cpc65 • 13 hours ago

Of course you didn't do anything wrong, Michael. Of course you didn't. It's just the Rhode Island way.

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

Taxpayer • 13 hours ago

When is the RISP going to look into Judge Licht's involvement in this case

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

Johns.Opinion • 16 hours ago

No one in the state of RI should do business with Michael Corso. Lets run him out of the state.

3   • Reply • Share ▾

Jeff crawford • 22 minutes ago

Gee, don't you think its just a coincidence that EDC relocated to the former Licht property under former Governor Don and then 38 studios came up on the radar screen. Who proposed they moved there and who gave the green light?

1   • Reply • Share ▾

James S Laroche • an hour ago

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Ted • 9 hours ago

cant stand him

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
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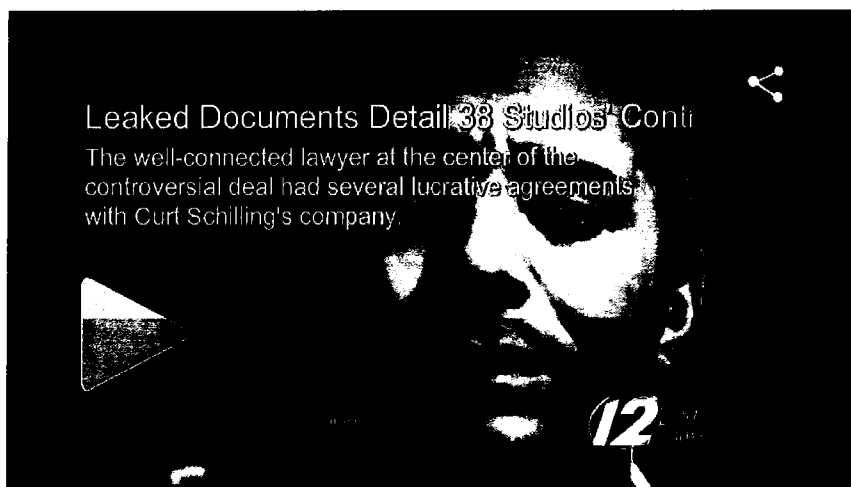
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Dan McGowan and Tim White

Published: Wednesday, May 7, 2014, 5:31 pm



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Ted Nesi contributed to this report.

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Ed Major • 14 days ago

indict and jail him...make him pay back the money...RI taxpayers should not be on the hook for this man's greed

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Gail Kelley • 13 days ago



I continue to be amazed that we don't hear former Gov. Carcieri's name when mentioning this scandal. Massachusetts wouldn't touch Curt Shilling's idea because it was deemed too "risky." Shouldn't Carcieri be questioned about his involvement in this?

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Ted → Gail Kelley • 13 days ago

That's a fair question. In fact, even *if* he wasn't involved in or aware of any of the abuses, Carcieri WAS GOVERNOR and a leading advocate for this bad deal.

2   • Reply • Share ▾



oceanstater • 13 days ago

Thanks for reporting all this, sleazy as it is. Its further evidence we shouldn't pay back another dime to the bondholders (who are they??) until all questions about this deal are answered.

1   • Reply • Share ▾



Sharon Knettell • 11 days ago

Governor Chafee is too good for this state- everybody squawked like stupid ducks over the 'holiday' tree while the crooks that are our state 'government played us. We deserve everything we are getting for not paying attention to the character of the people we elect only to what

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Thrown for a Curve in Rhode Island



By MATT BAI
Published: April 20, 2013

You have to imagine what it was like being Don Carcieri in the harsh winter of 2010. As Rhode Island's governor, a Republican in an overwhelmingly Democratic state, he had come into office seven years earlier as a business executive turned politician, vowing to retool the state's corroded economy.

But that winter, Rhode Island was on the precipice of economic ruin. Its unemployment rate was pushing up against 12 percent — fourth worst in the nation — and three of its cities were careening toward bankruptcy. Facing term limits, Mr. Carcieri had only months left to do something to arrest the steep decline.

And that's when Don Carcieri ran into Curt Schilling, the revered former Boston Red Sox ace — the man who had famously bled through a sock while pitching his team to its first World Series title in 86 years. That March, Mr. Carcieri attended a fund-raiser for a prospective documentary at Mr. Schilling's 25-acre estate in Medfield, Mass. The two men exchanged pleasantries in the living room before the talk turned abruptly to business.

"I said, 'Well, what are you doing?'" Mr. Carcieri recalled when I met him recently, at a Panera Bread in East Greenwich, R.I., his hometown. "And he said, 'I've got this business, this company, creating video games.' Which I knew nothing about — my grandkids know more about it than I do. But he was describing it. He said: 'It's a great little company, it's growing,' et cetera. And he was looking to grow it further."

More to the point, Mr. Schilling let drop that he wasn't getting much help in Massachusetts when it came to the financing he needed to expand, and he was frustrated. You can imagine the heralding trumpets that must have been blasting in Mr. Carcieri's ears as he listened to Mr. Schilling dangle hundreds of jobs in front of him.

Marc Phares/Epic Studios

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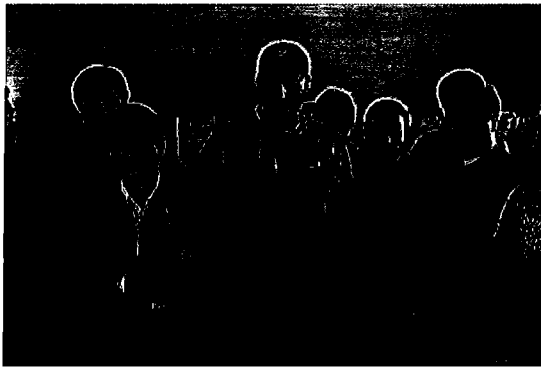
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☐ I know the owner

☐ Other

Question 1 / 5

Life's better when we're connected



Gretchen Ertl for The New York Times

Curt Schilling, center, at an animation team meeting at 38 Studios, his game company, in early 2012. A few months later, 38 Studios sought bankruptcy.

Within a few weeks, Mr. Schilling, a novice in the gaming field, was wowing other local politicians with his outsize presence and his grand ambitions to build a Microsoft-like behemoth. And soon Rhode Island's lawmakers were rushing to approve a deal to make the state Mr. Schilling's angel investor. The tiny, struggling state issued \$75 million in bonds so that Mr. Schilling's company, called 38 Studios, could relocate to Providence and unleash the world's next killer fantasy game.

Ideas that seem plausible in our darkest moments often seem plainly flawed in hindsight, and you can probably see where all this is going. A little more than two years after Mr. Carcieri first talked to Mr. Schilling about 38 Studios — so named for his baseball uniform number — the company went bankrupt, blowing a sizable hole in the state's already strained finances. And now Mr. Schilling's headquarters on Empire Street, the brick building just a few blocks from the Capitol that was supposed to prompt a high-tech urban renaissance, sits locked and abandoned, like some ugly monument to political folly.

Politicians are debating whether Rhode Island can afford to repay the bondholders, or whether it should simply default. Because the bonds are what's known as moral obligation bonds, the state doesn't technically have to repay them, but its credit rating could take a hit, and Mr. Carcieri's successor as governor, Lincoln D. Chafee, has promised that the bondholders would be repaid. Mr. Chafee is also suing Mr. Schilling and his partners, along with a raft of former state officials, banks and law firms involved in the deal, and a criminal investigation is under way.



Mike Terry for The New York Times

Gov. Lincoln Chafee has called the state's backing of the company "the worst investment that's ever been made, I think, in the history of Rhode Island."

Even in a state that long served as New England's Mafia headquarters — and a state whose best-known modern political figure, Buddy Cianci, the former Providence mayor, was sent to prison in a federal corruption case known as Operation Plunder Dome — the 38 Studios debacle has registered as a painful embarrassment. (When I called influential Rhode Islanders and told them I was writing about 38 Studios, virtually all of them, even if they had opposed the deal, answered with some version of, "Do you *have* to?")

Rhode Islanders are used to being played by their politicians. What makes them cringe is the suspicion that virtually all their elected leaders might have been played by someone else.

A Beguiling Vision

It may be hard to understand how all of this happened without understanding the ancient, one-sided rivalry that exists between Rhode Island, a state of just 1,000 square miles, and Massachusetts, which squeezes Rhode Island on two sides like a vise. Massachusetts is the land of the Red Sox and the Kennedys; Rhode Island makes do with the Red Sox' Class AAA affiliate in Pawtucket and has a history of rampant political corruption.

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Going back to the 1980s, Massachusetts developed a high-tech corridor near Cambridge that enabled it to transcend its manufacturing roots. Rhode Island remained stubbornly wedded to its textile makers and jewelry factories, most of them now long gone or crumbling.

So when Curt Schilling came courting in the weeks after his encounter with Mr. Carcieri, it wasn't just the promise of jobs that caught the attention of the state's political establishment. Here was one of Boston's greatest living legends, a proven winner who had sunk something like \$50 million of his own fortune into his company, and he was looking to build it not in Kendall Square of Cambridge, but near the old Jewelry District of Providence. If ever there was a way to show up the Bay Staters next door, this had to be it.



Joe Giblin/Associated Press
Mr. Chafee's predecessor, Don Carcieri, had seen the company as a potential jobs magnet.

"It just felt really good, when this all started, to have the sexy sports celebrity from Boston who seemed to like Rhode Island and showed up in Rhode Island, and who built this exotic new business, even though no one knew what it was," says the historian Ted Widmer, who grew up in Providence and works at Brown. "It seemed like the digital economy, or biotech, or whatever. But then it turned out that it wasn't the new digital economy. It was some 13-year-old's medieval fantasy."

That's not really an accurate assessment of Mr. Schilling's start-up, but neither is it entirely off base. (Mr. Schilling declined to talk to me about 38 Studios, citing the continuing litigation; in an e-mail, he called the state's case against him "wholly without merit and literally 100 percent baseless.") An avid gamer when he wasn't on a mound, Mr. Schilling dreamed up 38 Studios near the end of his playing days back in 2006, according to a Harvard Business School case study written in 2009.

From the start, his goal was to build what gamers call an MMORPG — for a massively multiplayer online role-playing game — along the lines of the crazily popular "World of Warcraft," and to get what he called "Bill Gates-rich" in the process.

By the time Mr. Schilling pitched Mr. Carcieri on his company, one of the world's leading video game publishers, Electronic Arts, had agreed to underwrite and publish a scaled-down, console version of the game, titled *Kingdoms of Amalur: Reckoning*. (A console game is the kind you can put into a system like an Xbox.) But Mr. Schilling estimated that he would need an additional \$100 million and a couple of years to finish his multiplayer masterpiece.

He had been unable to get it from any of the venture capital firms in Boston, probably because these types of online role-playing games are notoriously expensive and hard to produce — even now, none have approached the commercial heights of *Warcraft* — and, according to the Harvard Business School study, Mr. Schilling wasn't willing to hand over even half the company's equity to prospective investors. He had little patience for their skepticism.

"Sitting across from people at investor meetings, I wonder, How can you not understand this?" Mr. Schilling told the study's authors. "How do you not see what we are doing? And if you do see it, why aren't you writing a check?"

As it happened, Rhode Island had decided to start writing its own checks in an effort to modernize its economy. Mr. Carcieri had overhauled the Economic Development Corporation, a quasi-public agency chaired by the governor and responsible for attracting new jobs. Its 13-member board included the respected chiefs of some of Rhode Island's leading businesses, including the C.E.O. of Hasbro Toys and the vice chairman of Gilbane, an international real estate developer.



Steven Senne/Associated Press

Mr. Schilling at the home of the Rhode Island Economic Development Corporation last May.

In past years, the corporation had provided loans of \$1 million here or \$1 million there, usually to help a local factory buy a new machine or to expand a plant, but now Mr. Carcieri was putting some muscle behind it. He and the Democratic leaders of the Legislature were preparing to appropriate \$50 million to the corporation so it could place bigger bets on new industries looking to locate in Rhode Island.

For years, state officials had been kicking around the intriguing idea of transforming the old jewelers' neighborhood in Providence, not far from the Rhode Island School of Design, into a nationally competitive "knowledge district" — the kind of neighborhood to which hip, young graduates would flock to design software. So, right from the start, what Mr. Carcieri and his economic planners saw in 38 Studios was just the sort of high-tech start-up that could be the magnet to revive the area.

Before they could realize this vision, however, Mr. Carcieri and the Democratic legislative leaders had to get through a two-step process. First, they had to convince lawmakers to authorize an extra \$75 million in bonds issued by the Economic Development Corporation, because Mr. Schilling said he needed at least that much if he was going to relocate to Providence and complete the multiplayer project. They managed to achieve this with only one dissenting vote, which was cast by Robert Watson, then the Republican leader in the House. ("Scandal finds money," Mr. Watson darkly warned at the time.)

With that obstacle out of the way, the project's boosters had to persuade the business heavyweights on the corporation's board to approve the loans to 38 Studios. When we talked, Mr. Carcieri emphasized to me that the board, far from being bullied by the governor or star-struck by Mr. Schilling, had engaged in a laborious process of due diligence and had come to see 38 Studios as a solid opportunity. "These are people who are not just going to roll over, even if it's something I wanted them to do," Mr. Carcieri told me.



Gretchen Ertl for The New York Times

The fantasy writer R.A. Salvatore, left, with Curt Schilling and Billy Ahlswede at 38 Studios' headquarters early last year. Mr. Salvatore was recruited to create a fantasy world for a new video game.

And yet, you don't have to dig very hard into the record to find that there were plenty of serious-minded advisers who tried to warn state officials away from 38 Studios. Among them, apparently, was the corporation's own financial portfolio manager, Sean Esten.

According to the state's pending lawsuit, Mr. Esten was alarmed that 38 Studios' worst-case projection for its business seemed to rely on releasing a successful game every two years — a track record that most gaming companies can only dream of.

"I don't think I can support a \$75 million guarantee to any single company in this industry due to the wide volatility in commercial success of game releases," Mr. Esten told his bosses in an e-mail. "Perhaps we should develop a toolbox of incentives (including loan guarantees) to attract companies into a cluster and not rely on a single company to build the cluster around."

According to the state's complaint, Mr. Esten's bosses decided to bury his analysis. (Like others involved in the deal, Mr. Esten declined to return my calls or e-mails.)

Another skeptic was Gina Raimondo, a Democrat who was running for state treasurer at the time and now holds the office. Ms. Raimondo spent the previous decade working in venture capital, and after reading about the proposed investment in July 2010, sent an unsolicited and eerily prescient e-mail to Keith Stokes, who was then the corporation's executive director and the deal's main architect.

"In general, I would proceed very carefully on this," Ms. Raimondo wrote. The company "is in the Boston area where there are 200 venture capital firms, and it is in a very hot area of gaming so if it were in fact a compelling investment I would have to think it would be well funded already by venture capitalists; the fact that many have looked at it and passed is a red flag."

(Mr. Stokes, who is out of government and is among those being sued, sent me a one-paragraph statement that said, in part, "I am fully prepared to undertake a vigorous defense and look forward to correcting the false and misleading allegations that have been leveled against me.")

In the end, with warnings like these apparently ignored by the staff, only one of the 13 board members voted against the investment in 38 Studios. That lone dissenter was Karl Wadensten, who owns Vibco, one of the country's main manufacturers of industrial vibrators.

Mr. Wadensten told me that he had simply asked himself some basic questions before the vote: Doesn't it always take twice as long to bring a product to market as you think it will? And if the economy keeps cratering, aren't parents likely to stop buying video games for their children?

It's easy, of course, to consider these questions now and to wonder what the rest of the state's top politicians and blue-ribbon C.E.O.'s were thinking. And no doubt Mr. Wadensten and others deserve credit for seeing the risks. But you can't really divorce the fateful plunge into 38 Studios from the context of the economic moment.

"They were telling us we could have unemployment of 13 or 14 percent!" Gordon D. Fox, the Democratic House speaker, recalled when we sat in his State House office one morning last December. "And you've got a population saying: 'O.K., lookit, we need something to happen now. We need jobs now.' And O.K., what is government's role in that?"

Mr. Fox and Mr. Stokes were the first Rhode Island officials to meet with Mr. Schilling after he made his pitch to Mr. Carcieri, and Mr. Fox was instrumental in pushing the financing through the Legislature. His father, he told me, had been a jewelry polisher downtown; his mother had worked as a maid. In 2010, people who reminded him of his parents were losing paychecks and getting tossed from their homes, and suddenly there was Mr. Schilling, sitting in front of him with a plan and bursting with entrepreneurial confidence.

"I don't want to make it look like I'm beguiled somehow by a sports guy," Mr. Fox told me. "But I imagine it's like certain military generals, when they call them up and say, 'You

know what? We need Eisenhower in there because he's the guy to lead that fleet across to Normandy.' You just at some point have confidence that, whatever that intangible is, this guy can do it. And I did get that feeling from him, that if all of this vets out true, this is probably a guy who can pull it off."

A Personal Feud

Lincoln Chafee is one of the more unusual politicians you will ever meet. The scion of one of Rhode Island's most admired political families, young Linc graduated from Brown in 1975 and promptly went off to shoe horses out West, spending seven solitary years on the Canadian racing circuit.

Although he can sometimes seem meek and stammering, all that time alone seems to have instilled in him a steely resolve. Throughout his career as a Republican senator and now as a governor without a party, Mr. Chafee has displayed a stubborn indifference to the wisdom of crowds and an outright contempt for famous figures — most notably George W. Bush — who strike him as imperious.

So it's not surprising that Mr. Chafee, after talking with some private investors he knew, decided that he wanted nothing to do with Mr. Schilling or 38 Studios. In July 2010, just after the Economic Development Corporation approved the bond issue for Mr. Schilling's company, Mr. Chafee, who was then a candidate for governor, spoke out against the deal and wondered aloud whether Mr. Schilling was the right business partner for the state.

"I just remember his own teammates didn't like him," Mr. Chafee said in a radio interview the day after the vote. "They thought he was a bit of a salesman. I remember one of his teammates said he painted his sock, the bloody sock, he painted it." (That story turned out to be inaccurate.) Mr. Chafee added, "I don't know if I trust Curt Schilling."

In the heart of New England, accusing Mr. Schilling of having fabricated the bloody sock was like saying that Betsy Ross had imported her flag from China. Local reporters immediately set about seeing if Mr. Chafee would retract the allegation. He wouldn't.



National Baseball Hall of Fame

In baseball lore, Mr. Schilling is known for pitching while bleeding through his sock in the Red Sox' championship year of 2004.

Thus began the often personal feud at the center of the 38 Studios scandal, between the revered and voluble jock on one hand and the obstinate introvert who was soon to become governor on the other. When it came to sounding the alarm about 38 Studios, Mr. Chafee told me recently, "You couldn't say I didn't do everything I could."

Whether Mr. Chafee did everything he could *after* becoming governor, however, is a different question. He made a point of touring 38 Studios' new building on Empire Street and trying to reach some accord with Mr. Schilling. Whether or not he liked the deal, Mr. Chafee said, the state was now in business with the company and he was committed to making sure that it succeeded. But then, from all appearances, Mr. Chafee pretty much wiped his hands clean and moved on to other things.

As governor, Mr. Chafee chaired the board of the Economic Development Corporation he had accused of negligence, but until 38 Studios went under, he made no consequential changes to the board or its staff. Mr. Chafee told me that he left Mr. Stokes in charge of monitoring the 38 Studios deal because Mr. Stokes was a longtime friend of the state Senate's president, and removing him would have required more political capital than it was worth.

According to an investigation by The Providence Journal, the development corporation's various committees held 63 meetings from September 2010 to May 2012, but not once did anyone discuss the financial health of 38 Studios. The board seemed to be under the impression that a consulting arm of I.B.M. had signed on to police its investment. In fact,

I.B.M. was being paid by 38 Studios, not the state, and didn't issue a single report to the board.

Mr. Chafee doesn't dispute the suggestion that he might have done more to monitor the state's investment.

"I had so many reservations about this being a bad deal, that I was reluctant to micromanage, to have it be 'Chafee screwing this up,'" he told me recently. "And don't forget, we had our hands full in this state."

He ticked off a series of challenges he has confronted as governor: a \$450 million budget shortfall, a small city in bankruptcy, Hurricane Irene and a battle over reforming the pension system. "We... had... our... hands... full," he repeated, tapping the table to emphasize each word.

It wasn't as if the state's leading politicians were going to run into Mr. Schilling at the Providence Place shopping mall, or sitting at a corner table at Capriccio, so they could ask him what was up with that whole gaming thing. If state officials had envisioned that Mr. Schilling would become a glamorous new pillar of the local business community, they had miscalculated there, too. Mr. Schilling made the drive most days from his Massachusetts home to Providence, but he didn't become a man about town. Mr. Schilling was talked about but rarely seen, and neither Mr. Chafee nor any other politician I spoke to ever thought to invite him over for a talk about what the company was doing with Rhode Island's money.

'The Company Was Curdling'

Had state officials known what was transpiring inside the brick building on Empire Street, it's a good bet they would have sensed trouble coming a lot sooner.

From the start, Mr. Schilling prided himself on offering good pay; the average annual salary, according to Mr. Schilling, was \$86,000. "We had as good a health care plan as anyone in the world," he said in an interview with WEEL, a Boston sports station, after 38 Studios collapsed.

And because Mr. Schilling was determined to bring his best talent with him from Boston to Providence, 38 Studios had also assumed responsibility for the mortgages on dozens of its employees' homes until they could be sold — the kind of incentive not usually offered by start-up companies.

As if all of this weren't expensive enough, as part of his agreement with Rhode Island officials, Mr. Schilling was ramping up at a frantic pace, hiring hundreds of new employees. Mr. Schilling and his main investor found themselves at cross-purposes; he needed to control costs, but the taxpayers had been promised more jobs, and jobs they got.

Experts will tell you that a multiplayer online game like Amalur is among the most complex and ambitious projects that a game producer could undertake, even if the company were well capitalized and had a proven record of success. Mr. Schilling's version was especially challenging, because it was a "player versus environment," or P.V.E., game, which means that your world as a player can evolve differently than some other guy's, depending on the choices you make; if you kill a wizard somewhere, the fortress that the wizard might have created somewhere else in the game will never exist.

Multiple layers of entire worlds have to be designed and coded. One of Mr. Schilling's original collaborators was the best-selling fantasy author R. A. Salvatore, whom Mr. Schilling recruited to create a fantasy world with 10,000 years of back story, racking up a bill (still unpaid) of almost \$2 million.

In 2011 and into 2012, as Mr. Schilling piled up expenses and payroll, 38 Studios was burning through several million dollars a month, with no end in sight. Brett Close, who had been 38 Studios' founding C.E.O. in Boston but left well before Mr. Schilling struck his deal with Rhode Island, told me that he had pushed Mr. Schilling to consider scaling back his ambitions. He suggested releasing Amalur in smaller phases, rather than "trying to build the skyscraper horizontally and then standing it up."

Mr. Schilling, however, was unmoved. He seemed to think that he could will Amalur into being, in the same way he had always been able to pitch his way out of a bases-loaded jam, even with a throbbing arm. His certainty reassured employees on Empire Street, who had no idea that he was running out of money.

Mr. Schilling had been counting on the sales of his console game, Reckoning, to keep the company going until the online game was ready. But in the months after 38 Studios and Electronic Arts introduced that version in February 2012, it became apparent that Reckoning wasn't going to be the breakout hit that Mr. Schilling needed it to be.

In the end, Reckoning sold about 1.5 million units, which was a more-than-respectable debut for a gaming company, but nothing like the spectacular showing that Mr. Schilling had projected. There was no way that he was going to lure more private financing at that point, and he had no more of his own cash to lose. He pledged his collection of gold coins to secure a bank loan for \$8.5 million, but time was running out.

In April 2012, Mr. Schilling finally reached out to the state, inviting Mr. Chafee and Mr. Fox, the House speaker, down to Empire Street for a meeting. Mr. Chafee recalled that as the two men waited for Mr. Schilling in a conference room, they poured themselves coffee, only to watch the cream in their cups curdle instantly.

"In retrospect, it was symbolic, because at that meeting there was indication that the company was curdling," Mr. Chafee told me. "Curt was talking about his investment, and how much he'd put into it, and how they were going to need more financing."

The two politicians tried to take all this in, then stumbled back into the street, too dazed to speak.

Inevitably, the sad, final act unfolded in a swirl of public recrimination. Mr. Schilling thought he had long been promised an additional \$14.3 million in tax credits from the state, but the Chafee administration refused to authorize them.

"We were in deep already, and like any good investor, show me a bridge to success, and I'll do the cost-benefit analysis," Mr. Chafee told me. "We never got that confidence that it was going to lead to something successful."

As Mr. Schilling scrambled for backing and failed to make his payroll for three consecutive weeks, Mr. Chafee publicly called the console game a "flop" and said 38 Studios was "just the worst investment that's ever been made, I think, in the history of Rhode Island." He also accused 38 Studios of trying to pass the state a bad check. By the time 38 Studios closed its doors for good in June, dismissing hundreds of employees in an e-mail, the company listed \$150 million in debt, \$22 million in assets and \$320 in petty cash.

For his part, Mr. Schilling made it very clear that he blamed Mr. Chafee for scuttling his plans to save the company. In the WEEI interview, Mr. Schilling said that a gaming company had been prepared to sign a \$35 million publishing deal for his console game, Reckoning. But then Mr. Chafee went and slammed the company, and Mr. Schilling's partner fled the scene.

"I think he had an agenda, and he executed it," Mr. Schilling said on the radio of Mr. Chafee. "This is an I-told-you-so, absolutely."

Mr. Schilling said he had basically lost his entire baseball fortune in 38 Studios. Months later, he would auction off his bloody sock.

The State Kind of Took Itself

The state's 95-page complaint against Mr. Schilling and his 13 co-defendants, most of whom have now filed motions with the court to dismiss the case, reads like the treatment for a modern remake of "The Music Man."

According to the complaint, Mr. Schilling knew that he needed more than \$75 million to realize his dream. He also must have known, it adds, that the amount of money he would get from Rhode Island — minus the money set aside for insurance and paid in transaction fees, along with the costs of relocating his employees — would actually fall short of that

mark by more than \$20 million. The complaint contends that Mr. Schilling purposely defrauded the state by taking its money even though he knew that it wasn't enough and that 38 Studios was "destined to fail."

This may or may not persuade a jury — and, in any event, it almost certainly won't get that far, because the main objective is most likely a settlement with the three major banks named as co-defendants in the suit, all of which advised the state or helped issue the bonds.

To the casual reader, though, the case against Mr. Schilling may not be all that impressive. After all, if people went around suing everyone who accepted a loan for less money than they actually needed, the courts wouldn't have time for anything else. In the state's version of events, Mr. Schilling comes off as an arrogant and overexuberant entrepreneur, possessed of grand delusions. But there's no suggestion that he intended to swindle anyone. He clearly believed he could succeed.

No, it was the entire political establishment of Rhode Island, not Curt Schilling, who decided that it would be a good idea for the taxpayers to capitalize a gaming company that had never actually produced a game, because the guy running it had a World Series ring, and because it might just seed a magic garden of technological innovation.



Steven Senne/Associated Press

Workers removed office items from the headquarters of 38 Studios last May.

At bottom, 38 Studios may be that rare political scandal that grew not from any lies that anyone told the public, but from the stories that desperate politicians told themselves.

"Maybe this just came down to everyone wanting it too badly," Mr. Fox told me. Or as another legislator, Charlene M. Lima, a Democrat, put it, "The state kind of took itself."

If there's a lesson in all this, it probably has to do with the limits of what any government can — or should — do to bring about growth. Just about every state offers some kind of tax incentive or loan program for businesses looking to relocate. But Rhode Island went further than that; in its zeal to land Mr. Schilling, the state took on the role of venture capitalist, without having the expertise to do it well.

An actual venture capital firm would have been investing in many companies at once, to minimize its exposure, and it would have demanded a sizable equity stake. It would have taken a seat on the board so it could monitor the money closely and, if needed, restructure the company. Rhode Island, instead, threw most of its venture money into a single, highly speculative start-up, insisted that it more than double the size of its work force, and then walked away.

This lesson isn't lost on Mr. Chafee, who has been preaching a longer-term, more methodical kind of economic development centered on what he calls "the meds and the eds" — that is, hospital and universities, of which Rhode Island has plenty. Brown recently moved its medical school into the hoped-for knowledge district, and the state has just finished burying a highway under the neighborhood, clearing acres of real estate.

Even so, with unemployment in Rhode Island above 9 percent, Mr. Chafee is now a profoundly unpopular governor, and his chances for re-election at this point seem slim. His deliberate approach inspires little confidence.

"People don't like it," Mr. Chafee acknowledged, shaking his head. "They want the razzle-dazzle." By which he meant something more like the shimmering kingdom of Amalur, twinkling just out of reach.

This article has been revised to reflect the following correction:

Correction: April 21, 2013

An earlier version of this article misspelled the given name of the owner of the company Vibco. He is Karl Wadensten, not Kurt.

A version of this article appeared in print on April 21, 2013, on page BU1 of the New York edition with the headline: Thrown for a Curve.

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38 STUDIOS

Documents allege shortfall hidden

Papers filed with the court say Schilling, others hid financial information, and suit should now be allowed to move forward

By **PAUL GRIMALDI JOURNAL STAFF WRITER**

PROVIDENCE — The people running the 38 Studios videogame company apparently knew before moving here that they didn't have enough money to finish their ambitious project and relied instead on speculative financial projections to run their studio, according to documents filed by the state Monday with the Superior Court.

Whether 38 Studios' true financial picture was communicated to then-Gov. Donald Carcieri or the R.I. Economic Development Corporation board is the central battleground of a lawsuit filed in late 2012 against company founder Curt Schilling and 13 other defendants.

Filings Monday by the state's lawyer show 38 Studios, which moved from Massachusetts when promised an R.I. Economic Development loan, needed a full \$75 million from Rhode Island, and then some, to have a chance to succeed. The company netted \$50 million from an EDC bond sale.

The EDC's lawyer, Max Wistow, alleges the shortfall was hidden from the EDC board by the agency's employees, its consultants and 38 Studios executives.

In the filings, Wistow asked Superior Court Judge Michael A. Silverstein to allow the lawsuit against Schilling — the former Red Sox ballplayer — and 13 other defendants to proceed.

Wistow had until Monday to respond to the defendants' requests that Silverstein dismiss the state's sweeping lawsuit against them. In all, they filed 10 separate dismissal motions, totaling 250 pages. The defendants asserted that the EDC board would have a \$50-million financing shortfall after the EDC bond sale.

In his own 269-page response, Wistow said there's "crushing evidence" that Schilling and others concealed financial information about his now-defunct video game company and that its suit against them should be allowed to move ahead.

"Defendants' argument is really an exercise in finger-pointing among co-conspirators," Wistow states.

Wistow called the defendants' assertion that the EDC board was fully aware of its financial shortcomings a "red herring." The board, Wistow says, was misled into approving the deal.

The company's initial financial projections show it expected to sell 1.7 million units of its first videogame — "Kingdoms of Amalur: Reckoning" by the end of 2011 and another 1.44 million units by the end of 2012. The game sold from 1.3 million to 1.4 million before the company filed for bankruptcy in mid-2012.

Company executives also projected they would sell 2 million units of their ambitious multi-player videogame — code-named Copernicus — by the end of 2012. They expected those sales would generate 600,000 subscribers — people paying \$12.50 a month to play the game. Copernicus was never finished.

Schilling and the other executive expected to be swimming in cash after the Copernicus launch. With Copernicus going full steam and other videogame sales, the company projected it would have \$110 million on hand and \$49 million in receivable (payments owed to the company) the end of 2013.

38 Studios never made it that far

With the bond sale having netted it less than expected, \$10 million in moving expenses and bond-related financing fees, 38 Studios' later financial projections showed it would run out of cash in 2012.

Its collapse in May 2012 left Rhode Island taxpayers with a bill of approximately \$100 million — the cost of paying principal and interest on bonds the EDC sold to back the agency's loan to 38 Studios.

Defendants have 10 days to respond to Wistow's filing — April

A hearing before Silverstein is for May 22. pgrimald@providencejournal.com

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'Not without risk': R.I. bets ex-pitcher can shoulder economy

01:00 AM EDT on Sunday, November 7, 2010

By Paul Grimaldi and Andy Smith

Journal staff writers



"It was about establishing the company as a catalyst for a broader digital-media cluster in Rhode Island," Economic Development Corporation President Keith Stokes said in defense of the \$75-million loan guarantee for 38 Studios.

The Providence Journal / Mary Murphy

Curt Schilling's turreted, 20-room mansion sits on 25 acres he owns in the suburban town of Medfield, Mass., a secluded domain buffered by a 196-acre nature preserve.

A wooden sign about the size of a coffee table at the start of a narrow lane carries this warning in black lettering: Private Property — No Trespassing — Police Take Notice.

On March 6, Rhode Island's governor made his way down that path.

Governor Carcieri was among the guests at a fundraiser in Schilling's home for a World War II documentary. When he and Schilling met that Saturday, they talked about a lot more than war veterans. The two men, who share a conservative political philosophy, each saw an opportunity.

Carcieri had taken office as the "jobs" governor, but as his eight-year term neared its end, he presided over a state with one of the highest unemployment rates in the United States and the worst economy in New England. He spotted a chance to make a bold move to attract a new wave of high-skilled jobs and walk off the political stage with a signature flourish.

Schilling had been a pitching ace and World Series hero for the Boston Red Sox. Retiring the year before, he now spent his time developing a video game company and saw a way to get the money he needed to win in a new arena.

"I said, 'You should be right there in Providence,' " Carcieri recalled. "I wasn't thinking anything would come of it."

During the next three months, Schilling and his team met privately in Rhode Island with Carcieri's top aides, legislative leaders and private parties to craft a transaction that would bring the company, and the promise of 450 jobs, to the state in return for a \$75-million state loan guarantee.

When the transaction finally became public, it met with an outcry. Taxpayers grouched that their money was being put at risk to back a millionaire ballplayer. Small-business owners in Rhode Island grumbled about an out-of-state company that had been granted a huge incentive while many of them struggled.

The transaction became the hot-button issue of the election season. Candidates who wanted to succeed Carcieri, Lincoln Chafee among them, blasted the agreement.

Their skepticism was understandable. Rhode Islanders already had seen many failed plans to revive the state's economy.

Now they questioned whether the transaction was part of a creative economic-development strategy that would attract new jobs or simply a plan put together by a small circle of insiders, an outgoing governor and a big-name ballplayer to benefit an untested company.

On March 10, Keith Stokes, the newly appointed executive director of the Economic Development Corporation, said Carcieri and House Speaker Gordon D. Fox, in separate conversations with him, suggested that Stokes meet Schilling.

"The Speaker had reached out to me, said I have a company interested in coming in to Rhode Island, it's led by Curt Schilling," Stokes told The Journal. "Later that day, the governor made the same statement to me."

Stokes said he met Schilling and Tom Zaccagnino, a 38 Studios director, for the first time on March 16. The meeting took place in the office of Providence lawyer Michael Corso. Fox also attended. "Mike Corso, a Providence attorney who had been helping 38 Studios explore tax incentive opportunities, contacted me about locating this high-profile company in Rhode Island," Fox wrote in an e-mail to The Journal.

Corso is the principal of three Rhode Island companies: Orb Development LLC and Kingston Capital Group, both of Providence, and Preservation Credit Fund LLC, of Cranston. He worked as a lawyer for downtown developer Cornish Associates and owns Tazza Café, a Westminster Street restaurant in a building Cornish owns.

Corso bills himself as "the primary draftsman of the Rhode Island Historic Preservation Investment Tax Credit" on a website resumé he maintains. He was a member of an exclusive working group created in 2008 by House Finance Committee Chairman Steven M. Costantino that reshaped the credit program when the state's budget troubles mounted.

It's unclear how long Corso has been associated with 38 Studios, the scope of his services, or whether he's being compensated.

Corso did not respond to The Journal's repeated efforts for comment.

Similarly, 38 Studios executives declined comment.

According to Stokes, the discussion March 16 was about the EDC's various funding programs. Stokes learned at that meeting of 38 Studios' interest in "growing the company substantially," he said. Stokes, in turn, told Schilling and Zaccagnino about the EDC's efforts to create a financial credit program for companies that make their money creating "soft assets" — such as computer software programs, brand images like the Nike swoosh and other intellectual property.

"So I stated to Tom and Curt, we are looking at developing capital credit for soft assets, particularly companies in software, engineering," Stokes recalled.

The EDC, Stokes said, had talked to legislators in December about starting the program with the authority to sell \$50 million in bonds.

Six days later, Stokes met again with Schilling and Zaccagnino. Also at the meeting were: J. Michael Saul, now the EDC's deputy director, and the agency's lawyer, Robert Stolzman, of Adler, Pollock & Sheehan.

"They also shared with us that their capital need was approaching about \$75 million," Stokes recalled. "As we started to feel 38 had some legs I went to the leadership and said 'Why not look at the \$50 million and add \$75 million'?"

What emerged later in the General Assembly was the Job Creation Guarantee Program, a proposal authorizing the R.I. Economic Development Corporation to sell up to \$125 million in bonds to back bank loans to companies.

State government officials made no public comments about Schilling's interest in Rhode Island in late March beyond confirming in a Journal story that Schilling had visited Providence twice that month to hear about the state's business aid programs.

One rationale for the secrecy about their negotiations with Schilling, Rhode Island officials say now, is they were worried that another state or a Canadian city would outbid them for 38 Studios. Schilling told the hosts of a Boston radio show that 38 Studios talked to seven states and Canada about financing.

There may have been private conversations about moving Schilling's company to those cities. But business development officials in places where Schilling said he considered moving the company — Louisiana and Canada — said 38 Studios made no formal contacts with their governmental economic agencies and that they had never heard of the company until being contacted by The Journal.

"No one at Louisiana Entertainment, a division of Louisiana Economic Development, has been contacted by this project in any way," said Sherri McConnell, the

entertainment division's executive director. There also is no record of the company having contacted economic agencies or video-game industry groups in the Canadian cities with sizable clusters of video-game companies.

Meanwhile, Stokes and EDC employees kept moving on the soft-asset bill.

House spokesman Larry Berman said Costantino inserted the \$125-million authorization into the supplemental budget on April 6 at the request of the EDC.

The guarantee cap was arrived at by tacking on the \$75 million Schilling estimated he needed to the \$50 million cap originally envisioned by the EDC.

Stokes and the EDC searched in April for people who could analyze the video-game industry — fast.

Strategy Analytics, one of two companies Stokes hired to do the work, said in a letter to the EDC it could do the work within three weeks, a timeline it considered “aggressive.”

In their reports, Strategy Analytics and Perimeter Partners each noted the difficulties of pulling off Stokes' plan to use one company — 38 Studios — as the “anchor” to attract other similar businesses.

The analysts pointed out that Schilling's company had no sales yet and planned the release of its first game in 2011 and a major multiplayer online game some time after that. “One major difference with Rhode Island's effort, as we discussed, is that most clusters that bring in ‘anchor’ tenants are established revenue-bearing entities that are producing titles,” wrote Barry Gilbert, of Strategy Analytics.

Many states are trying to create clusters of video-game companies, the reports said. And the cluster strategy takes time — a decade or longer to develop, Gilbert noted.

Also, there will be competition in the marketplace when 38 Studios releases its multiplayer game, the report stated. Five other companies plan major video-game releases between the end of 2010 and 2012, when 38 Studios plans the release of its multiplayer game, the analysts said. Among the new games will be World of Warcraft: Cataclysm — a sequel to the dominant multiplayer game, and another based on the “Star Wars” movie series.

"With a large single focus, [the multiplayer game] 38 Studios will have little wiggle room upon release — this is analogous to an 'all in' hand in poker," stated in the analysts report.

The EDC also was aware of a separate study by Economists Incorporated, commissioned by the video-game industry trade group Entertainment Software, that showed more than 32,000 people directly employed by video-game publishers and developers in 34 states. The study estimated the video-game industry added \$4.5 billion to the U.S. economy in 2009.

As the EDC studied the video-game industry, General Assembly leaders moved the legislation. On May 19, the leadership pulled the soft-asset loan guarantee proposal out of the supplemental budget and introduced it as a separate bill in the House — the Job Creation Guaranty Program.

Costantino, the House Finance chairman, said, "I knew that 38 Studios was interested in Rhode Island, absolutely."

But other House Finance members interviewed by The Journal said neither Costantino, nor Fox, told committee members about 38 Studios. Neither did Stokes when he testified in support of the bill. "Knowing a company is interested is a lot different than knowing a company was going to get [funding]," Costantino said.

The bill passed the House on May 25, moved to the Senate the next day and passed that chamber June 11, amid the Senate's final, 72-hour, sprint to adjournment.

Members of the House and Senate finance committees told The Journal they did not know when they voted on the Job Creation Guaranty Program that Schilling's company would benefit from the bill's passage.

Rep. John A. Savage, a House Finance Committee member, said, "I thought the \$125-million program was for the purpose of helping companies already in Rhode Island to develop and expand, or else to bring start-ups into the state.

"I was thinking in terms of \$5 million to \$6 million grants."

Sen. Daniel DaPonte, chairman of the Senate Committee on Finance, said he didn't know Schilling was close to a \$75-million transaction with the state.

"I was surprised by the amount," DaPonte said. "It really comes down to how you allocate your risk exposure."

House Minority Leader Robert Watson, who, like Carcieri, is an East Greenwich Republican, cast the only dissenting vote in either chamber when the bill came to a full vote.

"Too fast, too loose and a scandal waiting to happen and that in fact is what has occurred," Watson said.

On June 14, three days after the bill's approval, the EDC's board of directors voted preliminary approval of a \$75-million loan guarantee, supported by issuing bonds, whose principal and interest will be paid out of money 38 Studios makes. If the company's payments fall short, the EDC, through the governor, will have to ask the General Assembly for money to cover the bond payments.

On July 26, the EDC board met again to go over the Schilling loan guarantee and voted 8 to 1 for final approval. Karl Wadensten, president of Vibco, a manufacturer of industrial vibrators, voted no. Three board members were absent.

"We understand the risk," said Alfred J. Verrecchia, vice chairman of the EDC board and chairman of toy-making giant Hasbro. "I don't think anybody made that decision without having really been thoughtful and [doing] a fair amount of due diligence, and we really didn't just rely on staff to do that. We did our own."

"I think they have a real good shot at being successful, but it's not without risk."

After the EDC publicized the agreement, taxpayers, business owners and politicians criticized the transaction.

Their concerns centered on the size of the loan, the risk to taxpayers and the wisdom of guaranteeing a multimillion-dollar loan to a business in an industry where failure is more common than success.

"A lot of red flags are going off," said Angus Davis, a high-tech entrepreneur in Providence and a member of the Rhode Island Board of Regents for Elementary and Secondary Education. "It's highly unusual for a pre-product-launch, pre-revenue company in a high-risk industry to get this kind of loan."

Gubernatorial candidates campaigned against the loan guarantee.

The harshest criticism came from Lincoln Chafee, who suggested suing the EDC board.

Schilling, in a rare interview, defended the loan guarantee.

"This will be the largest gaming studio on the East Coast," he told the hosts of a Boston sports radio show on July 28.

The former ballplayer said he invested "north" of \$30 million of his own money in 38 Studios.

Schilling also referred to a conversation "six months ago" with Fox. "I gave him my word I would not leverage the transaction with any other state," Schilling told the hosts of the Dennis & Callahan show.

As the 38 Studios transaction became mired in state politics, Stokes also defended the agreement.

"It was the right call at the right time, but the decision was never only about 38 Studios," he wrote in his August newsletter. "It was about establishing the company as a catalyst for a broader digital-media cluster in Rhode Island. As an anchor tenant, 38 Studios will be a magnet for other related businesses that will set up shop here and generate thousands of additional jobs in our state."

He added, "38 Studios was the first opportunity for the RIEDC to implement the Job Creation Guaranty Program."

The newsletter did not explain that before legislators approved the program, the EDC focused solely on 38 Studios. There's no evidence from EDC documents obtained by The Journal that the agency considered any other video-game company, or software sector.

Governor Carcieri, who chairs the EDC board, responded angrily to politicking over the loan guarantee.

"Businesses and the bond market should not be subject to political posturing," Carcieri said.

He defended the agreement, citing the EDC board's vote "to move forward with the 38 Studios deal," after "months of due diligence."

The \$75-million bond sale was completed Tuesday, and the first \$13 million of the proceeds was released to Schilling's company.

On Wednesday, the day after his campaign victory, Governor-elect Chafee backed off his threat to sue the EDC board.

"I don't like risking the taxpayers' money, and this is one of the biggest risks I've ever seen," Chafee said to reporters.

But, the governor-elect said, there seems to be no way he can undo the transaction, leaving him with one task.

"I will, however, ensure that 38 Studios fully and completely [complies] with each and every commitment that it has made to the taxpayers of Rhode Island," he said in a written statement.

38 Studios already has met one of the requirements for receiving the money, signing a lease for offices at the corner of Empire and Washington streets in downtown Providence. Schilling has not yet said when his company will actually move into the building.

It will be three years or longer before anyone knows whether Schilling, the pitching ace-turned-businessman, proves he can win at a game that pays off for all Rhode Islanders.

Carcieri is preparing to leave office in January. The businessman-turned-politician said he's confident the agreement is structured so that the state will come out ahead as 38 Studios grows into its role as an anchor for a new industry here.

"This is only a risk if everything goes wrong," Carcieri said.

Journal Staff Writer Kate Bramson contributed to this report.

Timeline for key events in the 38 Studios loan guarantee

March 6 — Curt Schilling and Governor Carcieri meet at a fundraiser at Schilling's home in Medfield, Mass.

March 10 — House Speaker Gordon Fox tells Keith Stokes that Schilling's company, 38 Studios, is interested in moving to Rhode Island. Carcieri tells Stokes the same thing.

March 16 — Schilling and 38 Studios board member Tom Zaccagnino meet with Stokes and Fox in the office of Providence attorney Michael Corso, who is working for 38 Studios.

March 22— Schilling and Zaccagnino meet with Stokes, J. Michael Saul, the EDC's finance director at the time, and EDC attorney Rob Stolzman.

March 24 —Providence Journal reports Schilling interested in moving company to Rhode Island.

April 6 — House Finance Committee holds hearing on loan-guarantee bill that was included in the state budget. Keith Stokes testifies.

April 8— House Finance Committee recommends passage of amended budget with EDC loan-guarantee provision.

May 19 — Rep. Steven Costantino moves EDC loan guarantee program into a separate bill.

May 25 — House passes the bill.

June 11 — Senate passes the bill. Carcieri signs legislation.

June 14 — EDC directors vote preliminary approval of a \$75-million loan guarantee for 38 Studios.

EDC board holds meeting to consider more details of 38 Studios plan.

July 26 — EDC board grants final approval of 38 Studios loan guarantee, with the promise of 450 jobs.

July 27 — In radio interview, gubernatorial candidate Lincoln Chafee criticizes the plan and questions Schilling's famous bloody sock.

July 28 — Schilling defends transaction in WEEI radio interview.

Aug. 31 — Original target date to close Schilling loan guarantee.

Sept. 8 — EDC discloses new details, including a \$20-million reserve fund held back from bond proceeds to pay investors.

Sept. 16 — EDC officials say the bonds will be sold in \$100,000 increments to private investors. Bond sale now expected to close in early October.

Sept. 23 — 38 Studios announces it has picked a location, One Empire Plaza, in downtown Providence. Bond rating agencies Moody's and Standard & Poor's issue ratings for EDC bonds.

Oct. 19 — In campaign debate, Chafee suggests lawsuits against EDC board members if Schilling plan goes sour.

Nov. 2 — Bond sale completed, 38 Studios receives first \$13-million installment.

asmith@projo.com

Like

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Eliyah

Score: 3

10:16 AM on 11/8/2010

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Two more questions.

1)Does Keith Stokes wear a toupee or does he just need a new hair stylist?

2) Who bought the first bond issuance? Let's have the list and see who's getting those high interest payments guaranteed by the taxpayers of RI.



Hodgey

Score: 1

8:58 AM on 11/8/2010

Report Abuse

Do you see what happens RI'ers.

They see you are all dumb enough to re-elect the same people into the GA year after year.

SO they know they can put this buy you as well.



jml19621

Score: 1 Report Abuse

8:50 AM on 11/8/2010

Final thought on this mess, no one and I mean no one should be hired by this company unless they have a Rhode Island address. If they cannot find enough people who are looking for work then they are not trying hard enough. I don't want to hear the garbage about companies have the right to hire who they want. Curt lost that right when he took my money. Curt now works for me.

2 replies



jml19621

Score: 3

Report Abuse

8:33 AM on 11/8/2010

Keith Stokes should be fired. He was the head of the Aquidneck Island Chamber of Commerce in that time he does nothing to bring in long term quality jobs. He pandered to the tourism industry. While tourism is a valuable asset and should be supported it is not a great economic engine. The quality of jobs are seasonal, low paying, and attract transient populations. I Newport the place is dead in the winter with no real economic activity. Mean while the bars that are open are filled with former hospitality workers spending their unemployment checks.



FA

Score: 1

Report Abuse

8:24 AM on 11/8/2010

Impeach Cacieri? It would be a fitting culmination to his eight years. Investigate the facts of this deal under oath and see where it leads. Maybe it will cost a million or so to chase this, but it is worth setting the record straight and perhaps establish grounds to recover cost and void this fraudulent deal.



YourNuts

Score: 5

Report Abuse

7:43 AM on 11/8/2010

HEY JOURNAL: you left out who the select private individuals were who were able to purchase these guaranteed high interest bonds from the EDC. They were not offered to us, the public, and were probably more insider-dealings on the back end.



jml19621

Score: 6

Report Abuse

7:26 AM on 11/8/2010

"...who share a conservative political philosophy" What philosophy would that be? Public risk and private reward? The public is on the hook for this foolish venture that is recognized as risky at best. If Curt goes belly up on this dream

will he loose his mansion? No. The taxpayer will loose their shirt. A shirt that I for one can ill afford to loose. Talk about welfare, this is nothing more than corporate welfare.



Cara
7:01 AM on 11/8/2010

Score: 0

[Report Abuse](#)

They have a couple of words for this ... " Star F....."



Liberal formerly a Democrat
6:21 AM on 11/8/2010

Score: 5

[Report Abuse](#)

Every time I think of this deal, I get angry. Why do we always wind up with corrupt venal morons in the state government, treating the taxpayers' money like toilet paper.

I hope Chafee gets to fire the butt of everyone involved. I actually hope they were all tied into this and go down to personal financial ruin, but no chance of that.

1 2 3

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